威海市商业银行
WEIHAI CITY COMMERCIAL BANK

威海市商業銀行股份有限公司
WEIHAI CITY COMMERCIAL BANK CO., LTD.

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

Stock Code : 9677

GLOBAL OFFERING

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers

华泰国际 HUATAI INTERNATIONAL　CICC 中金公司　招银国际 CMB INTERNATIONAL

Joint Global Coordinator, Joint Bookrunner, Joint Lead Manager

山高金融 CSFG

Joint Bookrunners, Joint Lead Managers

Forthright　盛源 SHENG YUAN　中泰國際 ZHONGTAI INTERNATIONAL　建银国际 CCB International

農銀國際 ABC INTERNATIONAL　ICBC 工银国际　海通國際 HAITONG　AMTD 尚乘

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

WEIHAI CITY COMMERCIAL BANK CO., LTD.*

威海市商業銀行股份有限公司*

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

GLOBAL OFFERING

Number of Offer Shares in the Global Offering	**:**	**877,271,000 H Shares (subject to the Over-allotment Option)**
Number of Offer Shares in the International Offering	**:**	**789,543,000 H Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**87,728,000 H Shares (subject to adjustment)**
Maximum Offer Price	**:**	**HK$3.51 per H Share (payable in full on application in Hong Kong dollars, subject to refund on final pricing), plus brokerage of 1.0%, a SFC transaction levy of 0.0027% and a Hong Kong Stock Exchange trading fee of 0.005%**
Nominal value	**:**	**RMB1.00 per H Share**
Stock code	**:**	**9677**

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers

Joint Global Coordinator, Joint Bookrunner, Joint Lead Manager

Joint Bookrunners, Joint Lead Managers

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

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, October 6, 2020 and, in any event, not later than Friday, October 9, 2020. The Offer Price will be no more than HK$3.51 per Offer Share and is currently expected to be no less than HK$3.35 per Offer Share unless otherwise announced. If, for whatever reason, the Offer Price is not agreed by Friday, October 9, 2020, between the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Underwriters) and us, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

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

The Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Underwriters) may, with our consent reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range stated in this prospectus (which is HK$3.35 to HK$3.51 per H Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicated offer price range will be available on the websites of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Bank at **http://www.whccb.com/**. See "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares".

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

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and may not be offered, sold, pledged or transferred within the United States, except that the Offer Shares may be offered, sold, pledged or transferred outside the United States in accordance with Regulation S.

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

September 29, 2020

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, October 6, 2020
Application lists open[3]	11:45 a.m. on Tuesday, October 6, 2020
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Tuesday, October 6, 2020
Latest time for completing payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Tuesday, October 6, 2020
Latest time for giving **electronic application instructions** to HKSCC[4]	12:00 noon on Tuesday, October 6, 2020
Application lists close[3]	12:00 noon on Tuesday, October 6, 2020
Expected Price Determination Date[5]	Tuesday, October 6, 2020

Announcement of:

(1) 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 to be published on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and our Bank's website at **http://www.whccb.com/**[6] from	Friday, October 9, 2020
(2) the results of allocations in the Hong Kong Public Offering (with successful applicants' identification document or business registration numbers, where appropriate) to be available through a variety of channels as described in "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" from	Friday, October 9, 2020

Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function from	Friday, October 9, 2020
Dispatch/collection of H Share certificates or deposit of the H Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before[7][9]	Friday, October 9, 2020
Dispatch/collection of refund checks and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before[8][9]	Friday, October 9, 2020
Dealings in the H Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on	Monday, October 12, 2020

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated.

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

(3) If there is/are a tropical cyclone warning signal number 8 above, a "black" rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, October 6, 2020, the application lists will not open or close on that day. Please see "How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists".

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

(5) The Price Determination Date is expected to be on or around Tuesday, October 6, 2020 and, in any event, on or before Friday, October 9, 2020. If, for any reason, our Bank and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Underwriters) are unable to reach agreement on the Offer Price on or before Friday, October 9, 2020, the Global Offering will not proceed and will lapse.

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

(7) The Bank will not issue temporary documents of title. H Share certificates will only become valid certificates of title at 8:00 a.m. on Monday, October 12, 2020 provided that (1) the Global Offering has become unconditional in all respects and (2) the Underwriting Agreements have not been terminated in accordance with their respective terms. Investors who trade H Shares prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

(8) e-Refund payment instructions/refund checks 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. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund check. Inaccurate completion of an applicant's Hong Kong identity card number or passport number invalidates or delays encashment of the refund check.

(9) Applicants who have applied on **WHITE** Application Forms or through the **White Form eIPO** service for 1,000,000 Hong Kong Offer Shares or more and have provided all information required by the Application Form may collect any refund checks and/or H Share certificates (where applicable) in person from our Bank's H Share Registrar, Computershare Hong Kong Investor Service Limited from 9:00 a.m. to 1:00 p.m. on Friday, October 9, 2020 or such other date as notified by our Bank on the websites of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Bank at **http://www.whccb.com/** as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection must not authorize any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend by their authorized representatives bearing a letter of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives of corporations (if applicable) must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar at the time of collection. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more may collect their refund checks, if any, in person but may not elect to collect their H Share certificates as such H Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to their or the designated CCASS Participant's stock account as stated in their Application Forms. The procedures for collection of refund checks for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Applicants who have applied for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should see "How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies — Personal Collection — (iv) If you apply via Electronic application instructions to HKSCC".

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the application bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks by ordinary post at their own risk. For applicants who have applied for less than 1,000,000 Hong Kong Offer Shares, any uncollected H Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants' own risk, to the addresses specified in the relevant applications on or before Friday, October 9, 2020.

Further information is set out in "How to Apply for Hong Kong Offer Shares — 13. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies".

The above expected timetable is a summary only. You should see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

CONTENTS

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

CONTENTS

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

OVERVIEW

We are the only city commercial bank with outlets covering all prefecture-level cities in Shandong Province, the third largest province in the PRC in terms of GDP. Adhering to our regional positioning of "Based in Shandong, Refined Efforts, Characteristic Development" ("立足山東，精耕細作，特色發展"), our overall business has sustained a steady and sound growth in recent years. We ranked 80th among the "Top 100 PRC Banks" in terms of core tier-one capital as of December 31, 2018 by the CBA, moving up 15 places compared with our ranking in terms of core tier-one capital as of December 31, 2016. In addition, we were rated as the "National Top 10 City Commercial Bank" for four consecutive years from 2016 to 2019 by Financial News (金融時報), a Chinese magazine, in recognition of our business performance and management capabilities. We ranked third among all city commercial banks headquartered in Shandong Province in terms of total assets, total deposits from customers and total loans to customers as of December 31, 2019.

We focus on high-end corporate banking customers in managing corporate banking business by leveraging supports from our shareholders and the government, as well as our extensive business network coverage, where we managed to capture high-quality customers through providing comprehensive financial services, which in turn attributes to the strong competitiveness in our Broad Corporate Banking business ("大公司業務"). In managing retail banking business, we stay close to the mass market of retail banking customers (i.e., micro and small enterprises as well as individuals), continuously enrich our "Broad Retail" product portfolio, and, at the same time, expand the Broad Retail Banking business ("大零售業務"), in order to accumulate significant differentiation advantages. We foster our core competitiveness by strengthening technology enabling, and continuously enhancing, the digital transformation of our products and services. As of March 31, 2020, our mobile banking customers reached 1.1 million, and the aggregate mobile banking transaction amount for the year ended December 31, 2019 exceeded RMB120.0 billion.

As part of our business strategies, we have established an integrated marketing system, which encourages cooperation and cross-selling of products and services among different departments and business lines, so as to promote the synergies between our corporate and retail banking businesses. We offer a variety of standardized and differentiated banking products and services to our retail and corporate banking customers through our electronic banking channels, branches and outlets. We have established an extensive business network covering all prefecture-level cities in Shandong Province and fully penetrated into regions in Shandong Province and Tianjin Municipality that we considered possessing strong economic growth potential.

Our substantial shareholders including Shandong Hi-Speed Group Company, Shandong Hi-Speed and Weihai Municipal Finance Bureau, have been supportive throughout our development. Capitalizing on the support from our shareholders, our deep knowledge on the local economies and policies promulgated by the PRC Government in recent years, we have strategically expanded into industries that enjoy strong business prospects and support from the PRC Government such as high-end manufacturing industry, medical and health industry, pharmaceutical manufacturing industry, transportation industry, marine industry, etc. As of the Latest Practicable Date, our corporate banking customers included many quality state-owned enterprises and private enterprises in Shandong Province and Tianjin Municipality, covering a wide range of industries. As part of our strategy to expand our business operation outside Shandong Province and to broaden our services, we also established a financial leasing company, Tongda Financial Leasing Co., in June 2016, which was the first financial leasing company in Shandong Province established by a commercial bank. Our profit from Tongda Financial Leasing Co. increased from RMB102.3 million in 2017 to RMB239.8 million in 2019, representing a CAGR of 53.1%. Our profit from Tongda Financial Leasing Co. increased from RMB57.6 million for the three months ended March 31, 2019 to RMB87.1 million for the three months ended March 31, 2020.

During the Track Record Period, our total assets increased by 9.9% from RMB204,497.9 million as of December 31, 2017 to RMB224,635.5 million as of December 31, 2019 and further increased to RMB235,290.2 million as of March 31, 2020. As of March 31, 2020, our deposits from customers and net loans and advances to customers amounted to RMB156,635.1 million and RMB101,205.7 million, respectively. Our net profit amounted to RMB1,602.8 million, RMB1,017.3 million and RMB1,523.7 million for the years ended December 31, 2017, 2018 and 2019, respectively, and for the three months ended March 31, 2019 and 2020, our net profit amounted to RMB376.1 million and RMB391.8 million, respectively. While we focus on achieving growth in our business, we have also maintained prudent risk management and internal control with an emphasis on maintaining sound asset quality. As of December 31, 2017, 2018, 2019 and March 31, 2020, our NPL ratios was 1.47%, 1.82%, 1.80% and 1.80%, respectively.

For details of our prominent honors and awards we received in recent years, please see "Business — Overview".

OUR COMPETITIVE STRENGTHS

Our key competitive strengths include:

- Capitalizing on our prominent regional advantages and comprehensive network layout, we have become the third largest city commercial bank in Shandong Province.
- We enjoy strong support from our resourceful and diversified shareholders base, a distinctive corporate culture, and an experienced management team as well as quality employees with strong team spirit and dedication.
- We have established a "Broad Corporate Banking" business with strong competitiveness, where we focus on high-end customers and develop transportation finance business and other characteristic businesses, and which is in alignment with the regional economic development.
- Our "Broad Retail Banking" business focuses on needs from base customers and has accumulated significant differentiation advantages through successful transformation of our business model and offering of featured products.
- We have seized the market momentum to develop our financial market business into a strong source of profit and significantly improve our asset allocation capabilities.
- We have adhered to digitalization-driven technology enablement for continuous progress and have made achievements in the building of online smart bank.
- We have established a centralized, vertical and effective comprehensive risk management system and have achieved stable asset quality.

For more details of our competitive strengths, please see "Business — Our Competitive Strengths".

OUR DEVELOPMENT STRATEGIES

We plan to develop technology-driven "Bi-Focus Retail Banking" ("兩端型零售銀行") business model and focus on enhancing differentiated strengths, retail banking business, intensive management and comprehensive coverage. It is our long term strategic goal to build ourselves into a bank that continuously creates value for employees, customers, shareholders and society. We plan to implement following development strategies:

- Continuous investment in business development to "Bi-Focus Retail Banking" ("兩端型零售銀行") business model, consolidating and enhancing differentiated advantages.
- Promoting digitalization of business operations and services and continuously enhance application of advanced Fintech.
- Implement "precise" internal management, and continuously improve the effectiveness of compliance and risk management.
- To build a "people-oriented" corporate culture and adhere to the route of "building a stronger bank with talents (人才強行)".

For more details of our development strategies, please see "Business — Our Development Strategies".

SUMMARY HISTORICAL FINANCIAL INFORMATION

You should read the summary historical financial information set forth below in conjunction with our historical financial information included in the Accountants' Report set forth in Appendix I, which were prepared in accordance with IFRS, and the sections headed "Assets and Liabilities" and "Financial Information".

We have adopted IFRS 9 since January 1, 2018, resulting in changes in accounting policies. Compared with IAS 39 that we had adopted prior to January 1, 2018, the major changes under IFRS 9 relate to the classification and measurement and the impairment model for financial assets. The classification of financial assets under IFRS 9 requires us to consider the business model and the contractual cash flow characteristics of each financial assets in order to determine its classification and subsequent measurement. Furthermore, for financial assets that will be classified as "amortized cost" or "fair value through other comprehensive income" under IFRS 9, we are required to apply a new expected credit loss impairment model, which, as compared to the incurred loss model under IAS 39, uses more forward-looking information instead of an objective evidence of impairment as a precondition for recognizing credit losses. Except for the changes in relation to impairment and classification and measurement of financial assets, the adoption of IFRS 9 does not result in any significant impact on our financial position and performance compared to the adoption of IAS 39.

To illustrate the difference between IAS 39 and IFRS 9 and the impact towards our financial results for the year ended December 31, 2018, we have prepared financial information for the year ended December 31, 2018 according to IAS 39 and IFRS 9, respectively. The adoption of IFRS 9 for the year ended December 31, 2018 does not result in any significant impact on our financial position and performance. For details, please see "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies". Also see Note 2 of the Accountants' Report in Appendix I.

In addition, we have further adopted IFRS 15 since January 1, 2018, resulting in changes in accounting policies. Compared with IAS 18 that we adopted prior to January 1, 2018, the adoption of IFRS 15 for the year ended December 31, 2018, 2019 and for the three months ended March 31, 2019 and 2020 does not result in any significant impact on our financial position and performance. We have also adopted IFRS 16 since January 1, 2019, which has replaced IAS 17. IFRS 16 primarily affected our accounting as a lessee for certain office premises which are currently classified as our operating lease. The adoption of IFRS 16 does not result in any significant impact on our financial position and performance compared to financial results under IAS 17. For details, please see "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies" and Note 2 (1) (a) of the Accountants' Report in Appendix I.

Our results of operations during the year ended December 31, 2017 may not be indicative of our results of operations for the reporting periods beginning on or after January 1, 2018. Also see "Risk Factors – Risks Relating to Our Business – Changes in accounting standards or policies may materially affect our financial condition and results of operations".

Selected Data from Consolidated Statements of Financial Position

	As of December 31,						As of March 31,	
	2017(1)		2018(2)		2019(2)		2020(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Assets								
Gross loans and advances to customers	66,518.6	32.5%	75,195.7	37.0%	92,451.6	41.2%	103,666.0	44.1%
Interest accrued(3)	N/A	N/A	350.2	0.2%	413.4	0.2%	533.6	0.2%
Allowance for impairment losses	(1,721.2)	(0.8%)	(2,229.4)	(1.1%)	(2,753.4)	(1.2%)	(2,993.9)	(1.3%)
Net loans and advances to customers	**64,797.4**	**31.7%**	**73,316.5**	**36.1%**	**90,111.6**	**40.2%**	**101,205.7**	**43.0%**
Gross financial investments	91,682.4	44.8%	92,775.5	45.7%	88,147.5	39.2%	93,804.3	39.9%
Interest accrued(3)	N/A	N/A	1,005.9	0.5%	1,281.4	0.6%	1,465.8	0.6%
Allowance for impairment losses	(367.5)	(0.2%)	(169.9)	(0.1%)	(300.5)	(0.1%)	(365.5)	(0.2%)
Net financial investments	**91,314.9**	**44.6%**	**93,611.5**	**46.1%**	**89,128.4**	**39.7%**	**94,904.6**	**40.3%**

	As of December 31,						As of March 31,	
	2017(1)		2018(2)		2019(2)		2020(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Cash and deposits with the central bank	19,149.5	9.4%	18,464.8	9.1%	21,203.8	9.4%	19,256.1	8.2%
Financial assets held under resale agreements	15,058.1	7.4%	1,392.3	0.7%	5,386.6	2.4%	—	—
Deposits with banks and other financial institutions	1,129.5	0.6%	1,054.9	0.5%	2,026.9	0.9%	1,064.9	0.5%
Placements with banks and other financial institutions	1,202.3	0.6%	1,271.9	0.6%	507.2	0.2%	568.0	0.2%
Property and equipment	751.0	0.4%	723.8	0.4%	705.5	0.3%	693.4	0.3%
Right-of-use assets	N/A	N/A	N/A	N/A	476.9	0.2%	497.6	0.2%
Deferred tax assets	266.6	0.1%	591.9	0.3%	957.8	0.4%	1,068.2	0.5%
Other assets(4)	10,828.6	5.2%	12,694.3	6.2%	14,130.8	6.3%	16,031.7	6.8%
Total assets	**204,497.9**	**100.0%**	**203,121.9**	**100.0%**	**224,635.5**	**100.0%**	**235,290.2**	**100.0%**
Liabilities								
Deposits from customers	120,096.0	62.1%	117,469.7	62.1%	144,234.0	69.8%	156,635.1	72.1%
Financial assets sold under repurchase agreements	22,020.1	11.4%	5,762.5	3.0%	9,945.3	4.8%	5,794.8	2.7%
Deposits from banks and other financial institutions	2,633.0	1.4%	7,431.0	3.9%	5,002.1	2.4%	4,864.3	2.2%
Placements from banks and other financial institutions	6,686.0	3.5%	10,461.5	5.5%	10,429.5	5.0%	12,008.9	5.5%
Debt securities issued	33,412.8	17.3%	42,942.5	22.7%	29,624.8	14.3%	28,818.2	13.3%
Borrowing from the central bank	3,166.4	1.6%	3,648.4	1.9%	4,730.9	2.3%	5,308.3	2.4%
Income tax payable	85.1	0.0%	164.0	0.1%	379.0	0.2%	467.2	0.2%
Deferred tax liabilities	—	—	—	—	5.2	0.0%	70.5	0.0%
Lease liabilities	—	—	—	—	448.7	0.2%	453.1	0.2%
Other liabilities(5)	5,327.4	2.7%	1,434.8	0.8%	1,912.5	1.0%	2,715.3	1.4%
Total liabilities	193,426.8	100.0%	189,314.4	100.0%	206,712.0	100.0%	217,135.7	100.0%
Total equity attributable to equity shareholders of the Bank	10,683.5	96.5%	13,367.0	96.8%	14,399.4	80.3%	14,493.0	79.8%
Perpetual bonds	–	–	–	–	2,999.7	16.7%	2,999.7	16.5%
Non-controlling interests	387.6	3.5%	440.5	3.2%	524.4	3.0%	661.8	3.7%
Total equity	**11,071.1**	**100.0%**	**13,807.5**	**100.0%**	**17,923.5**	**100.0%**	**18,154.5**	**100.0%**
Total liabilities and equity	**204,497.9**		**203,121.9**		**224,635.5**		**235,290.2**	

Notes:

(1) IAS 39 was adopted prior to January 1, 2018.

(2) IFRS 9 was adopted from January 1, 2018 onwards.

(3) Presented pursuant to the Notice on Revising and Issuing the Format of Financial Statement of Financial Enterprises for 2018 (《關於修訂印發2018年金融企業財務報表格式的通知》) issued by the MOF in December 2018. The interest accrued on financial instruments measured based on the effective interest rate method should be included in the book balance of relevant financial instruments on the financial statements from January 1, 2018 onwards.

(4) Consisted primarily of prepayments, interest receivables, other receivables, finance lease receivables.

(5) Other liabilities consisted primarily of interests payable, payment and collection clearance accounts, accrued staff costs and dividend payable.

For more details, please see "Assets and Liabilities".

Selected Data from Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the year ended December 31,			For the three months ended March 31,	
	2017[1]	2018[2]	2019[2]	2019[2] (unaudited)	2020[2]
	(in millions of RMB)				
Interest income	8,385.9	7,259.8	8,957.6	2,052.4	2,491.4
Interest expense	(4,741.6)	(5,357.3)	(5,651.4)	(1,355.5)	(1,559.8)
Net interest income	**3,644.3**	**1,902.5**	**3,306.2**	**696.9**	**931.6**
Fee and commission income	336.2	370.3	416.4	117.1	136.8
Fee and commission expense	(99.5)	(297.1)	(144.7)	(70.9)	(13.1)
Net fee and commission income	**236.7**	**73.2**	**271.7**	**46.2**	**123.7**
Net trading (losses)/gains	(39.0)	65.3	74.4	59.6	(12.7)
Net gains arising from investment securities	44.2	1,773.4	1,294.5	353.1	417.3
Other operating income[3]	21.8	19.2	0.4	3.3	5.2
Operating income	**3,908.0**	**3,833.6**	**4,947.2**	**1,159.1**	**1,465.1**
Operating expenses	(1,439.2)	(1,348.8)	(1,462.3)	(366.3)	(358.3)
Impairment losses on assets	(511.2)	(1,335.3)	(1,671.2)	(346.3)	(634.3)
Profit before tax	**1,957.6**	**1,149.5**	**1,813.7**	**446.5**	**472.5**
Income tax expense	(354.8)	(132.2)	(290.0)	(70.4)	(80.7)
Net profit for the year/period	**1,602.8**	**1,017.3**	**1,523.7**	**376.1**	**391.8**
Net profit attributable to non-controlling interests	35.8	52.9	84.0	20.2	32.4
Net profit attributable to equity shareholders of the Bank	1,567.0	964.4	1,439.7	355.9	359.4
Basic earnings per share (RMB/share)	0.38	0.23	0.29	0.07	0.07
Diluted earnings per share (RMB/share)	0.38	0.23	0.29	0.07	0.07

Notes:

(1) IAS 39 was adopted prior to January 1, 2018.

(2) IFRS 9 was adopted from January 1, 2018 onwards.

(3) Consisted primarily of government grants, rental income and net gains on disposal of collaterals.

We have adopted IFRS 9 from January 1, 2018 to replace IAS 39. According to IFRS 9, our net interest income in 2018 and 2019 amounted to RMB1,902.5 million and RMB3,306.2 million, and our net interest income for the three months ended March 31, 2019 and 2020 amounted to RMB696.9 million and RMB931.6 million, respectively, which were less than the results for the same periods should we apply IAS 39, mainly because the interest income from financial investments measured at fair value through profit or loss under IAS 39 was recognized in the "net gains arising from investment securities" rather than "interest income" according to IFRS 9. For details on the impact of adopting IFRS 9 on our results of operations, please see the section headed "Financial Information — Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Assuming we still apply IAS 39 in 2018, our net interest income in 2018 would amount to RMB3,552.4 million, representing a slight decrease of 2.5% from RMB3,644.3 million in 2017, primarily attributable to a 13.0% increase in interest expenses during the same period. The increase in interest expenses was due to (i) an increase in the average balance of our total interest bearing liabilities from RMB170,468.0 million in 2017 to RMB182,833.7 million in 2018 mainly as a result of the issuance of certificates of interbank deposit to replenish our working capital purposes; and (ii) an increase of average cost of our total interest liabilities bearing from 2.78% in 2017 to 2.93% in 2018 due to the increase in the market interest rate. Our net interest income increased from RMB1,902.5 million in 2018 to RMB3,306.2 million in 2019 primarily due to (i) an increase in the average balance of our interest-earning assets from RMB164,390.7 million in 2018 to RMB190,121.5 million in 2019 as a result of our continued development of our corporate and retail banking business especially our loan businesses; and (ii) an increase in the average yield on our interest-earning assets from 4.42% in 2018 to 4.71% in 2019 mainly as a result of increased average yield on financial investments and loans and advances to customers.

Our net interest income for the three months ended March 31, 2020 amounted to RMB931.6 million, representing an increase of 33.7% from RMB696.9 million for the three months ended March 31, 2019, primarily attributable to a 21.4% increase in interest income during the same period. The increase in interest income was due to the increases in the average balance of our total interest earning assets from RMB181,877.2 million for the three months ended March 31, 2019 to RMB209,798.2 million for the three months ended March 31, 2020. The increase in our total interest earning assets was primarily attributable to an increase in the average balance of loans and advances to customers as result of overall increase in our loan businesses and the increase in the average yield of our interest earning assets from 4.58% for the three months ended March 31, 2019 to 4.78% for the three months ended March 31, 2020.

Our net fee and commission income decreased by 69.1% from RMB236.7 million in 2017 to RMB73.2 million in 2018, primarily because of a 198.6% increase in fee and commission expenses from RMB99.5 million in 2017 to RMB297.1 million in 2018. The increase in fee and commission expenses was primarily due to the increase in agency service fees we paid to other banks and financial institutions (the "**Agency Service Fees**") for carrying out derivative transactions linked to our structured deposits products prior to August 2019. Our net fee and commission income increased by 271.2% from RMB73.2 million in 2018 to RMB271.7 million in 2019, primarily because a 51.3% decrease in fee and commission expenses from RMB297.1 million in 2018 to RMB144.7 million in 2019. The decrease in fee and commission expenses was mainly due to a decrease in Agency Service Fees as a result that we obtained the qualification for trading derivatives in 2019 and we started to carry out the derivative transactions by ourselves instead of relying on other banks and financial institutions after August 2019. Similarly, for the same reasons, our net fee and commission income increased from RMB46.2 million for the first three months ended March 31, 2019 to RMB123.7 million for the first three months ended March 31, 2020.

In addition, our net gains arising from investment securities increased substantially from RMB44.2 million in 2017 to RMB1,773.4 million in 2018 primarily due to the adoption of IFRS 9 since January 1, 2018. Our net gains from investment securities in 2018, 2019 and for the three months ended March 31, 2020 were much higher than the results for the same periods should we apply IAS 39, mainly because the interest income from financial investments measured at fair value through profit or loss under IAS 39 has been recognized in "net gains from investment securities" according to IFRS 9. For details on differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "Financial Information — Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Assuming we still apply IAS 39 in 2018, our net gains arising from investment securities would increase from RMB44.2 million in 2017 to RMB123.5 million in 2018, which was due to the increase in the realized gains from our investment in debt securities. Our net gains arising from investment securities decreased from RMB1,773.4 million in 2018 to RMB1,294.5 million in 2019, mainly due to (i) our reduction of SPV Investment which led to a significant decline in net gains from financial investments measured at fair value through profit or loss; and (ii) the average daily balance of our financial investments measured at fair value through profit or loss decreased by approximately RMB10,938.6 million as compared to 2018, which affected our interest income from our investment securities. The decrease in our SPV Investment and average daily balance of our financial investments measured at fair value through profit or loss was primarily due to our prudent approach in shrinking our investments in non-credit based SPV Investment which was in line with our investment strategies, risk appetite and risk management. Our net gains arising from investment securities increased from RMB353.1 million for the three months ended March 31, 2019 to RMB417.3 million for the three months ended March 31, 2020, primarily due to the increase in the realized gains from our investment in debt securities and our transaction scale in debt securities. Please refer to Note 6 in Appendix I for more details.

Our impairment losses on assets increased substantially from RMB511.2 million in 2017 to RMB1,335.3 million in 2018 mainly because (i) our impairment losses on loans and advances to customers increased substantially from RMB331.6 million in 2017 to RMB1,226.0 million in 2018, primarily due to the increase in the scale of allowance for impairment losses on loans and advances to customers as a result of the adverse impacts of PRC's economic slowdown in 2018 as well as the industrial structure adjustment in Shandong Province which caused financial position of some of our borrowers to deteriorate in 2018; and (ii) our impairment losses on finance lease receivables increased by 91.4% from RMB60.4 million in 2017 to RMB115.6 million in 2018, primarily because of the increase in the provision for impairment of finance lease receivables as a result of the increase in the scale of finance lease business. Our impairment losses on assets increased by 83.2% from RMB346.3 million for the three months ended March 31, 2019 to RMB634.3 million for the three months ended March 31, 2020, mainly because (i) our impairment losses on loans and advances to customers increased by 67.0% from RMB317.3 million for the three months ended March 31, 2019 to RMB530.0 million for the three months ended March 31, 2020, primarily due to the corresponding increase in the allowance for impairment of loans as a result of the increase in the scale of loans extended; and (ii) our impairment losses on financial investments increased significantly by 455.4% from RMB12.1 million for the three months ended March 31, 2019 to RMB67.2 million for the three months ended March 31, 2020, primarily due to the increase in the provision for impairment losses of financial investments as a result of the changes of the credit ratings of some of our debt securities investment brought by the operational difficulties of certain corporate issuers.

Primarily as a result of the foregoing factor, our net profit decreased by 36.5% from RMB1,602.8 million in 2017 to RMB1,017.3 million in 2018 and subsequently increased by 49.8% to RMB1,523.7 million in 2019. Similarly, our net profit increased by 4.2% from RMB376.1 million for the first three months ended March 31, 2019 to RMB391.8 million for the first three months ended March 31, 2020. For detailed discussion on each line item and analysis of our results of operations for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2019 and 2020, please see "Financial Information — Results of Operations For the Years Ended December 31, 2017, 2018 and 2019" and "Financial Information — Results of Operations for the Three Months Ended March 31, 2019 and 2020".

OUR PRINCIPAL BUSINESS LINES

Our principal business lines include corporate banking business (including financial leasing services provided through our subsidiary, Tongda Financial Leasing Co.), retail banking business, and financial markets business. For details of our principal business, please see "Business — Our Principal Business Lines". The following table sets forth our operating income by business segments for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(unaudited)			
	(in millions of RMB, except for percentages)									
Corporate banking business[(1)]	2,135.8	54.6%	2,235.4	58.3%	2,931.7	59.3%	646.1	55.8%	824.2	56.3%
Retail banking business	522.0	13.4%	714.4	18.6%	897.2	18.1%	245.8	21.2%	347.2	23.7%
Financial markets business	1,234.8	31.6%	870.2	22.7%	1,129.2	22.8%	269.2	23.2%	294.0	20.1%
Others[(2)]	15.4	0.4%	13.6	0.4%	(10.9)	(0.2%)	(2.0)	(0.2)%	(0.3)	(0.1)%
Total[(3)]	**3,908.0**	**100.0%**	**3,833.6**	**100.0%**	**4,947.2**	**100.0%**	**1,159.1**	**100.0%**	**1,465.1**	**100.0%**

Notes:

(1) Our operating income from corporate banking business also included revenue derived from Tongda Financial Leasing Co.

(2) Consisted primarily of income that is not directly attributable to any specific business segment.

(3) Our operating income from these segments represents the net interest income derived solely from the respective lines of business, which is further added/deducted by net fee and commission income/(expense), net (losses)/gains on trading activities, net gains arising from investment securities or other operating income/(expense), as applicable, attributable to the respective lines of business.

LOANS AND ADVANCES TO CUSTOMERS

As of December 31, 2017, 2018, 2019 and March 31, 2020, our gross loans and advances to customers amounted to RMB66,518.6 million, RMB75,195.7 million, RMB92,451.6 million and RMB103,666.0 million, respectively. The increases of loans and advances to customers during the Track Record Period was primarily attributable to the growth of both our corporate loan business and personal loan business. For more details on our corporate loan and personal loan portfolio, and a detailed discussion on the changes in their composition during the Track Record Period, please see "Assets and Liabilities — Assets — Loans and Advances to Customers".

Distribution of Loans by Business Line

Our loans and advances to customers consist of corporate loans, personal loans and discounted bills. For description of the loan products we offer, please see "Business — Our Principal Business Lines". The following table sets forth our loans and advances to customers by business line as of the dates indicated.

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans	51,197.7	77.0%	53,410.6	71.0%	63,499.1	68.7%	70,790.8	68.3%
Personal loans	11,403.1	17.1%	15,181.0	20.2%	22,291.4	24.1%	23,964.6	23.1%
Discounted bills	3,917.8	5.9%	6,604.1	8.8%	6,661.1	7.2%	8,910.6	8.6%
Total loans and advances to customers	**66,518.6**	**100.0%**	**75,195.7**	**100.0%**	**92,451.6**	**100.0%**	**103,666.0**	**100.0%**

Maturity Profile of Loan Portfolio

The following table sets forth our loan products by remaining maturity as of the date indicated.

	As of March 31, 2020					
	Overdue[1]	Due in 3 months or less	Due over 3 months up to 12 months	Due over 1 year up to 5 years	Due in more than 5 years	Total
	(in millions of RMB)					
Corporate loans						
Working capital loans	3,704.8	9,725.3	22,906.8	13,585.5	126.8	50,049.2
Fixed asset loans	312.0	29.6	980.0	7,939.2	9,491.6	18,752.4
Other corporate loans	203.9	308.2	1,477.1	—	—	1,989.2
Subtotal	**4,220.7**	**10,063.1**	**25,363.9**	**21,524.7**	**9,618.4**	**70,790.8**
Personal loans						
Residential mortgage loans	7.7	0.4	6.3	248.1	10,260.9	10,523.4
Personal consumption loans	16.8	156.9	1,079.2	1,301.1	0.3	2,554.3
Personal business loans	137.0	502.2	2,113.1	5,509.2	2,110.8	10,372.3
Credit card balance	2.8	511.8	—	—	—	514.6
Subtotal	**164.3**	**1,171.3**	**3,198.6**	**7,058.4**	**12,372.0**	**23,964.6**
Discounted bills						
Bank acceptance bills	—	1,420.2	6,598.8	—	—	8,019.0
Commercial acceptance bills	—	103.0	788.6	—	—	891.6
Subtotal	**—**	**1,523.2**	**7,387.4**	**—**	**—**	**8,910.6**
Total loans and advances to customers	**4,385.0**	**12,757.6**	**35,949.9**	**28,583.1**	**21,990.4**	**103,666.0**

Note:

(1) Represented the balance of principal of the loans on which principal or interest was overdue as of March 31, 2020.

Distribution of Loans by Collateral

A substantial amount of our loans and advances to customers are secured by collateral, pledges or guarantees. As of December 31, 2017, 2018, 2019 and March 31, 2020, our loans and advances to customers secured by collateral, pledges or guarantees amounted to RMB60,800.4 million, RMB66,464.4 million, RMB78,770.0 million and RMB86,558.5 million, representing 91.4%, 88.4%, 85.2% and 83.5% of our total loans and advances to customers, respectively. The following table sets forth the distribution of our loans and advances to customers by type of collateral as of the dates indicated.

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Pledged loans[1]	3,642.6	5.5%	3,403.5	4.5%	4,120.4	4.5%	6,467.3	6.2%
Collateralized loans[1]	21,176.9	31.8%	26,252.2	34.9%	35,719.8	38.6%	38,973.2	37.6%
Guaranteed loans[1]	35,980.9	54.1%	36,808.7	49.0%	38,929.8	42.1%	41,118.0	39.7%
Unsecured loans	1,800.4	2.7%	2,127.2	2.8%	7,020.5	7.6%	8,196.9	7.9%
Discounted bills	3,917.8	5.9%	6,604.1	8.8%	6,661.1	7.2%	8,910.6	8.6%
Gross loans and advances to customers	**66,518.6**	**100.0%**	**75,195.7**	**100.0%**	**92,451.6**	**100.0%**	**103,666.0**	**100.0%**

Note:

(1) Represented the total amount of loans fully or partially secured by collateral, pledges or guarantees in each category. If a loan is secured by more than one form of security interest, the categorization is based on the primary form of security interest.

Distribution of Corporate Loans by Size of Corporate Borrowers

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

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Large enterprises[1]	10,051.2	19.6%	10,417.7	19.5%	12,180.6	19.2%	12,076.5	17.1%
Medium enterprises[1]	15,770.3	30.8%	17,880.7	33.5%	21,729.8	34.2%	26,721.6	37.7%
Small enterprises[1]	22,405.4	43.8%	22,617.8	42.3%	24,556.1	38.7%	26,395.7	37.3%
Micro enterprises[1]	1,952.1	3.8%	1,553.3	2.9%	3,171.3	5.0%	3,431.9	4.8%
Others[2]	1,018.7	2.0%	941.1	1.8%	1,861.3	2.9%	2,165.1	3.1%
Total corporate loans	**51,197.7**	**100.0%**	**53,410.6**	**100.0%**	**63,499.1**	**100.0%**	**70,790.8**	**100.0%**

Notes:

(1) The classification criteria for large, medium, micro and small enterprises are based on the number of their employees, operating income and total assets, as stated in the Classification Standards of Small and Medium Enterprises. Please see "Definitions and Technical Terms".

(2) Primarily included loans to public institutions.

Financial Markets

The following table sets forth a breakdown of the total balance of our debt securities investment, SPV Investment, equity investment and other investments as of the dates indicated:

	As of December 31,		As of January 1,		As of December 31,				As of March 31,	
	2017[1]		2018[2] (unaudited)		2018[2]		2019[2]		2020[2]	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Debt securities investment	48,477.3	52.9%	48,456.2	52.9%	51,048.7	55.0%	53,474.2	60.7%	60,842.3	64.9%
SPV Investment	41,456.8	45.2%	41,444.6	45.3%	34,427.7	37.1%	32,709.9	37.1%	31,627.3	33.7%
Equity investment	264.1	0.3%	91.1	0.2%	71.1	0.1%	195.6	0.2%	193.7	0.2%
Other investments[3]	1,484.2	1.6%	1,484.1	1.6%	7,228.0	7.8%	1,767.8	2.0%	1,141.0	1.2%
Total financial investment	**91,682.4**	**100.0%**	**91,476.0**	**100.0%**	**92,775.5**	**100.0%**	**88,147.5**	**100.0%**	**93,804.3**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

(3) Consisted primarily of certificates of interbank deposit.

The following table sets forth a breakdown of our interest income from our financial investments as well as their respective average yields for the periods indicated.

	For the year ended December 31,												For the three months ended March 31,					
	2017(1)			2018(1) (unaudited)			2018(2)			2019(2)			2019(2) (unaudited)			2020(2)		
	Average balance	Interest income	Average yield(3)	Average balance	Interest income	Average yield(3)	Average balance	Interest income	Average yield(3)	Average balance	Interest income	Average yield(3)	Average balance	Interest income	Average yield(3)	Average balance	Interest income	Average yield(3)
	(in millions of RMB, except percentages)																	
Debt securities investment	44,038.1	1,713.2	3.89%	51,147.5	2,075.7	4.06%	41,307.2	1,597.4	3.87%	47,756.1	1,913.1	4.01%	48,655.5	460.0	3.83%	52,345.2	531.3	4.08%
SPV Investment	42,903.4	2,258.5	5.26%	38,004.1	2,061.5	5.42%	18,503.7	977.7	5.28%	19,345.1	1,092.7	5.65%	17,500.4	252.1	5.84%	18,461.0	279.2	6.08%
Others(4)	652.1	26.6	4.08%	2,185.8	96.3	4.41%	233.3	8.5	3.64%	3,150.2	109.0	3.46%	4,066.1	34.9	3.48%	2,206.4	17.7	3.23%
Total	**87,593.6**	**3,998.3**	**4.56%**	**91,337.4**	**4,233.5**	**4.64%**	**60,044.2**	**2,583.6**	**4.30%**	**70,251.4**	**3,114.8**	**4.43%**	**70,222.0**	**747.0**	**4.31%**	**73,012.6**	**828.2**	**4.56%**

Notes:

(1) Prepared according to IAS 39.

(2) Prepared according to IFRS 9.

(3) Calculated by dividing (i) our interest income from the corresponding assets in the period, by (ii) the average balance of these assets.

(4) Consisted primarily of certificates of interbank deposit.

Cash Flows

During the Track Record Period, we had cash inflows from operating activities before changes in operating assets and liabilities of RMB3,771.3 million, RMB2,811.1 million, RMB3,782.1 million, RMB886.4 million and RMB1,034.9 million, respectively, in 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020.

We had net cash outflows from operating activities of RMB125.4 million and RMB11,923.3 million, respectively, in 2017 and 2018. The net cash outflow from operating activities primarily resulted from the increases in our loans and advances to customers during the Track Record Period, which was in line with our business expansion. For the year ended December 31, 2019 and the three months ended March 31, 2019 and 2020, our net cash inflows from operating activities were RMB10,716.5 million, RMB1,825.4 million and RMB3,469.9 million, respectively. The net cash inflow from operating activities was primarily resulted from the increases in our deposits from customers for the year ended December 31, 2019 and the three months ended March 31, 2019 and 2020. To improve our cash flow position, we will continue to increase our efforts to attract deposits from customers by offering diversified deposit products to address demands of different customer groups, closely monitor the cash outflows from our credit extension business and optimize the asset structure. For details of our cash flows, please see “Financial Information — Cash Flows”.

Selected Financial Ratios

The following table sets forth selected profitability indicators for the periods indicated.

	For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019(6) (unaudited)	2020(6)
Return on average assets(1)	0.80%	0.47%	0.67%	0.68%	0.63%
Return on average equity(2)	15.30%	8.02%	10.27%	10.67%	10.02%
Net interest spread(3)	1.73%	1.49%	1.83%	1.66%	1.90%
Net interest margin(4)	1.96%	1.16%	1.74%	1.55%	1.79%
Cost-to-income ratio(5)	35.89%	34.23%	28.68%	30.75%	23.52%

Notes:

(1) Calculated by dividing net profit attributable to shareholders of our Group for the period by the average balance of total assets at the beginning and the end of the period.

(2) Calculated by dividing net profit attributable to shareholders of our Group for the period by the average balance of equity attributable to shareholders of our Group at the beginning and the end of the period.

(3) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
(4) Calculated by dividing net interest income by the average balance of total interest-earning assets.
(5) Calculated by dividing total operating expenses (excluding taxes and surcharges) by total operating income.
(6) Calculated based on annualized basis.

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

	Regulatory requirement	As of December 31,			As of March 31,
		2017	2018	2019	2020
Capital adequacy indicators					
Core tier-one capital adequacy ratio(1)	≥7.5%	8.29%	10.39%	9.76%	9.17%
Tier-one capital adequacy ratio(2)	≥8.5%	8.32%(8)	10.42%	11.78%	11.05%
Capital adequacy ratio(3)	≥10.50%	12.82%	15.12%	16.03%	15.05%
Asset quality indicators					
NPL ratio(4)	≤5.00%	1.47%	1.82%	1.80%	1.80%
NPL (in million of RMB)	N/A	978.4	1,370.3	1,668.3	1,870.6
Percentage of loan overdue by more than 30 days	N/A	2.08%	3.10%	2.99%	3.14%
Allowance coverage ratio(5)	≥150.00%	175.93%	163.26%	165.50%	160.60%
Allowance to gross loan ratio(6)	≥2.50%	2.59%	2.98%	2.99%	2.90%
Other indicator					
Loan-to-deposit ratio(7)	N/A	55.38%	64.94%	65.01%	66.94%

Notes:

(1) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation — Supervision over Capital Adequacy " and "Financial Information — Capital Resources — Capital Adequacy".
(2) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation — Supervision over Capital Adequacy" and "Financial Information — Capital Resources — Capital Adequacy".
(3) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation — Supervision over Capital Adequacy" and "Financial Information — Capital Resources — Capital Adequacy".
(4) Calculated by dividing total NPLs by gross loans and advances to customers. Our NPL ratio increased from 1.47% as of December 31, 2017 to 1.82% as of December 31, 2018, mainly because (i) under the influence of PRC's economic slowdown and industrial restructuring, some borrowers' operational and financial conditions deteriorated due to the intensified market competition; and (ii) we started to categorize loans overdue by over 90 days as NPLs in 2018, which was a new standard issued by CBIRC that requires banks to classify all loans overdue by over 90 days as NPLs by the end of 2018. Our NPL ratio decreased slightly from 1.82% as of December 31, 2018 to 1.80% as of December 31, 2019, mainly because we strengthened our credit risk management to improve our asset quality and carried out collection process and write-off of NPLs in accordance with relevant regulatory policies. Our NPL ratio remained steady at 1.80% as of March 31, 2020.
(5) Calculated by dividing total allowance for impairment losses on loans to customers by total NPLs.
(6) Calculated by dividing total allowance for impairment losses on loans to customers by gross loans and advances to customers.
(7) Calculated by dividing total loans and advances to customers by total deposits from customers. Prior to October 1, 2015, PRC commercial banks were required to maintain a loan-to-deposit ratio of no higher than 75%. Effective from October 1, 2015, the PRC Commercial Banking Law was amended and the 75% maximum loan-to-deposits ratio was repealed.
(8) As of December 31, 2017, our tier-one capital adequacy ratio was 8.32%. According to the requirements of the Notice of CBIRC Regarding the Arrangement of Transition Period of Implementation of the Administrative Measures for the Capital of Commercial Banks (Provisional), the tier-one capital adequacy ratio for Non-Systematically Important Banks should reach 8.1% and 8.5% by the end of 2017 and by the end of 2018, respectively. Therefore, our tier-one capital adequacy ratio for the year ended December 31, 2017 has reached the effective regulatory requirements at that time.

APPLICATION FOR THE OFFER SHARES

The application for the Hong Kong Offer Shares will commence on Tuesday, September 29, 2020 through Tuesday, October 6, 2020. The application monies (including the brokerages, SFC transaction levies and Hong Kong Stock Exchange trading fees) will be held by the receiving bank on behalf of the Bank and the refund monies, if any, will be returned to the applicants without interest on Friday, October 9, 2020. Investors should be aware that dealing in the H Shares on the Hong Kong Stock Exchange is expected to commence on Monday, October 12, 2020.

OFFERING STATISTICS

The statistics in the following table are based on the assumptions that (i) the Global Offering is completed and 877,271,000 H Shares are newly issued in the Global Offering, (ii) the Over-allotment Option for the Global Offering is not exercised, and (iii) 5,848,468,344 Shares are issued and outstanding following the completion of the Global Offering:

	Based on an Offer Price of HK$3.35	Based on an Offer Price of HK$3.51
Market capitalization	HK$19,592.37 million	HK$20,528.12 million
Unaudited pro forma adjusted net tangible assets per Share(1)	RMB2.89(2) (HK$3.31)	RMB2.91(2) (HK$3.34)

Notes:

(1) The amount of unaudited pro forma adjusted net tangible assets per share is calculated in accordance with paragraph 4.29 of the Listing Rules after the adjustments referred to in "Appendix IV — Unaudited Pro Forma Financial Information".

(2) The estimated net proceeds from the Global Offering are translated into Renminbi at the rate of RMB0.8721 to HK$1.00, the exchange rate set by the PBoC prevailing on September 18, 2020. No representation is made that the Hong Kong Dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

DIVIDENDS

We currently do not have a pre-determined dividend payout ratio. Whether to pay dividends, the amount of dividends to be paid or the dividend payout ratio 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. Pursuant to PRC laws and our Articles of Association, dividends may only be distributed from our distributable profits calculated in accordance with PRC GAAP or IFRS (or the accounting standards of the overseas jurisdictions where our Shares are listed), whichever is lower.

In 2018 and 2019, we had declared and distributed cash dividends of RMB417.1 million and RMB418.2 million for the year ended December 31, 2017 and 2018, respectively. On February 29, 2020, our Shareholders approved and passed the resolution in respect of the dividends for the year ended December 31, 2019 at a shareholders' general meeting and the Board shall distribute cash dividends of RMB497.1 million in respect of the year ended December 31, 2019. As of the Latest Practicable Date, our declared but unpaid dividends amounted to RMB1.6 million comprising (i) dividends in the sum of RMB1.3 million payable to shareholders we are unable to contact in the pasts; and (ii) dividends in the sum of RMB0.3 million payable to our shareholders who did not timely claim the dividends or we were in the process of contacting them.

Under the PRC laws and our Articles of Association, we may only declare dividends out of our distributable profits determined under PRC GAAP or under IFRS (whichever the lower). Under the current PRC GAAP and IFRS, we do not expect there is any material difference between our net profit prepared in accordance with PRC GAAP and IFRS which may materially impact the amount of dividend that we can declare unless new accounting standards or related amendment under PRC GAAP and IFRS are issued which would result in different adoption time and resulted in non-convergence between these two accounting standards.

Under the Resolution on Distribution of Profits Accumulated before Listing by Weihai City Commercial Bank Co., Ltd. (《威海市商業銀行股份有限公司關於上市前滾存利潤分配方案的議案》) approved by our Shareholders on February 29, 2020, both current and new Shareholders are entitled to our accumulated retained earnings prior to the Listing, subject to compliance with our Articles of Association and relevant regulatory requirements. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size, dividends will be paid in the future. For details on our dividends, see "Financial Information — Dividends".

INFORMATION ON OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Shandong Hi-Speed Group Company will be interested in 2,910,381,485 Shares in aggregate, representing 49.76% of the enlarged issued share capital of our Bank and will continue to be our Controlling Shareholder upon the Listing.

Shandong Hi-Speed Group Company is directly owned by the Shandong SASAC, Shandong Guohui Investment Co., Ltd. (山東國惠投資有限公司) (a wholly-owned subsidiary of Shandong SASAC) and the Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會) as to 70%, 20% and 10% respectively. Please refer to the section headed "Relationship with Our Controlling Shareholder" of this prospectus for details.

Save as disclosed in "Relationship with our Controlling Shareholder", none of our Controlling Shareholder and our Directors has any interest in a business, apart from our Group's business, which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules. For details on our substantial Shareholders, please see "Substantial Shareholders".

FUTURE PLANS AND USE OF PROCEEDS

Assuming an Offer Price of HK$3.43, being the mid-point of the proposed Offer Price range, we estimate that the net proceeds of the Global Offering accruing to us (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to be approximately HK$2,900.2 million, if the Over-allotment Option is not exercised; or approximately HK$3,345.7 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. For more details on our plans for using the proceeds of the Global Offering, please see "Future Plans and Use of Proceeds".

COVID-19 OUTBREAK

Since early 2020, there have been outbreaks of COVID-19 over the world, including PRC, Hong Kong, U.S. and various countries in the Europe. World Health Organization has since declared COVID-19 as pandemic on March 11, 2020. To prevent the transmission of COVID-19 within our Group and our community, in line with our effort to provide a safe working environment for all our employees, we have promptly taken precautionary measures, including providing technical support for employees to work from home, distribution of protective masks to our onsite employees, temperature screening at entry of office buildings, hand and desk sanitizing and disinfection of common areas, advising our staff to avoid unnecessary travel to areas affected by the COVID-19 outbreak and crowded places, maintaining good indoor ventilation. As at the Latest Practicable Date, we had incurred approximately RMB0.8 million in respect of these precautionary measures in order to prevent the transmission of COVID-19.

In order to mitigate the spread of the COVID-19, we had taken the initiative to close all our outlets between January 27, 2020 and February 2, 2020 (as opposed to rotating our outlets during the Spring Festival in accordance with our usual practice every year) and gradually re-opened and rotated our outlets between February 3, 2020 and March 1, 2020 as follows:

- between February 3, 2020 and February 9, 2020, we rotated 13 to 14 outlets (approximately 11.0% to 11.9% of our outlets) during working days;
- between February 10 and February 16, 2020, we rotated 41 to 43 outlets (approximately 34.8% to 36.4% of our outlets) during working days;
- between February 17 and February 23, 2020, we rotated 46 to 60 outlets (approximately 39.0% to 50.9% of our outlets) during working days; and
- between February 24 and March 1, 2020, we rotated 70 to 77 outlets (approximately 59.3% to 65.3% of our outlets) during working days.

Between January 27, 2020 and March 1, 2020, we had not experienced any material interruption to our business operations due to the closures and rotations of our outlets on the basis that (i) we maintained a certain number of our outlets open for the public access during working days as well as rotating our outlets every working day so as to reduce the inconveniences caused by the closures of the outlets during this unprecedented health crisis; (ii) there were less demands and instructions from our banking customers as a result of the COVID-19 outbreak, which affected the whole PRC; (iii) travel restriction caused by the containment measures such as quarantine, stay-at-home measures, etc., which were imposed by the local government and the PRC Government, has caused our banking customers to access our electronic banking channels more often than usual in order to carry out their day-to-day banking transactions including subscribing wealth management products, making deposit, applying for loan, etc., instead of visiting high street outlets; (iv) despite the closure of the outlets, those employees affected by the closure of the outlets were required to work from home; (v) for the three months ended March 31, 2020, our net interest income and net profit had increased by 33.7% and 4.2%, respectively, as compared to the three months ended March 31, 2019; and (vi) as of March 31, 2020, our gross loans and advances to customers and deposits from customers had both increased by 12.1% and 8.9%, respectively, as compared to our gross loans and advances to customers and deposits from customers as of December 31, 2019. For more detail of our financial information as of and for the three months ended March 31, 2020, please see "Financial Information". Subject to the local government policies, all our outlets in Shandong Province and Tianjin Municipality had resumed full business operation since March 2, 2020. To the best of the knowledge of our Directors, since the onset of the COVID-19 outbreak and up to the Latest Practicable Date, there had been no confirmed case of COVID-19 infection among our employees or instance in which any of our employees was unable to report to work as a result of the COVID-19 outbreak.

In view of this unprecedented health crisis, as the PRC's economy is grappling with the effects of the COVID-19 outbreak, PRC's GDP contracted by 6.8% in the first quarter of 2020 when compared with the same period of 2019 while its output shrank by 9.8% when compared with the fourth quarter of 2019. Retail spending, which contributed approximately 57.8% of PRC's economic growth in 2019, plunged by 19.0% in the first quarter of 2020 as compared with the same period of 2019. Similarly, industrial production, fixed-asset investment, international trade, all fell 8.4%, 16.1%, 6.4%, respectively, in the first quarter of 2020 when compared with the same period of 2019. These contractions came as efforts from the PRC Government to curb the spread of COVID-19 which have kept most people across PRC indoors, shops and restaurants shut during the first quarter of 2020 as well as suspended a good proportion of economics activities, which inevitably caused enterprises to delay production and resumption of works.

Since March 31, 2020, PRC's economy has returned to growth after businesses and workers were plunged into a negative first quarter in 2020. Surging pharmaceuticals and medical device exports, farm production, online shopping and advanced machinery manufacturing drove the PRC's GDP up by 3.2% in the second quarter in 2020, bouncing back from a 6.8% decrease at the peak of the COVID-19 outbreak pandemic between January 2020 and March 2020. Industrial production, a gauge of manufacturing, mining and utilities, rose by 4.8% in June 2020 after a 4.4% rise in May 2020. Fixed asset investment, a gauge of expenditures on infrastructure, property, machinery and equipment, fell 3.1% in the first six months of 2020, but an improvement from the 6.3% decline in the first five months of 2020. Retail spending, on the other hand, continued to show improvement but still was down by 11.4% in the first six months of 2020 as compared with the same period in 2019 (retail spending plunged by 19.0% in the first quarter of 2020 as compared with the same period in 2019). All these indicators pointed that the PRC has gradually overcome the adverse impact of the COVID-19 outbreak and has slowly continued to recovery.

In order to counter the impact of the COVID-19, the PRC Government has introduced a wide range of fiscal and monetary easing initiatives and supportive measures with the aim of encouraging banks and financial institutions to enhance their credit support to affected enterprises and individuals and to try to cushion the economic blow from the pandemic. Such initiatives and supportive measures include:

- On March 1, 2020, CBIRC, PBoC and other PRC regulatory authorities jointly issued the Notice on Temporary Deferment of Repayment on Principal and Interest for Loans to Micro and Small Enterprises (Yin Bao Jian Fa [2020] No. 6) 《關於對中小微企業貸款實施臨時性延期還本付息的通知》(銀保監發[2020]6號) (the "**March 1 Notice**"), according to which, qualified micro and small enterprises facing temporary liquidity difficulties due to the COVID-19 outbreak can make applications with banks to defer repayment of principal and interest expenses payable from January 25 to June 30, 2020 (the "**Due Date**"), and overdue loan repayments during the relevant period will not be subject to penalties. As of Latest Practicable Date, the Due Date has been extended to March 31, 2021 by the relevant PRC regulatory authorities;
- On March 13, 2020, PBoC announced that it would reduce the amount of cash that some of the banks are required to hold as a reserve at the central bank and it was estimated that this would release around RMB550 billion in liquidity into the interbank market. In addition, the reserve requirement ratio (the "**RRR**") would be cut by 50 -100 basis points for qualified banks. Qualified joint-stock commercial banks would enjoy an additional cut of 100 basis points. The cuts are aimed at

smaller banks to encourage them to lend to micro, small and medium enterprises during this unprecedented health crisis and at the time, PBoC has urged lenders to extend affordable loans and tolerate late payments from borrowers hit by the health crisis;

- On April 3, 2020, PBoC further announced that it would cut the targeted RRR by another 100 basis points for small and mid-sized lenders, including rural banks, village and township banks and city commercial banks. The adjustment will be implemented in two stages, that is 50 basis points cut on April 15, 2020 and another 50 basis points cut on May 15, 2020. PRC has about 4,000 small and mid-sized banks. The latest cuts would lower their RRR to 6.0%. It was estimated that this would release around RMB400 billion in liquidity into the interbank market to shore up the economy which has been jolted by the COVID-19 pandemic. In addition, the interest rate on financial institutions' excess reserves with the central bank would be reduced from 0.72% to 0.35%, effective from April 7, 2020. This would encourage the banks to invest their excess cash balances elsewhere.

In prompt response to these initiatives and supportive measures, we have launched the following special supportive measures for our qualified customers including (i) individual business owners and enterprises such as micro, small and medium enterprises who were affected by the containment measures imposed by the PRC Government during the COVID-19 outbreak such as quarantines, and travel restrictions, as well as those experienced delayed production or resumption of works; (ii) doctors, nurses, paramedics, medical personal or anyone who were battling and helping those affected by the COVID-19 pandemic including donation to approved charity or hospital; and (iii) enterprises involved in medical appliances or pharmaceuticals (together the "**Affected Customers**"): (i) temporary loan principal and interest payment deferment options (the "**Deferment Option**"); (ii) preferential interest rates offered to the Affected Customers (the "**Preferential Interest Rate Option**"); and (iii) fees waiver for certain transaction for the Affected Customers (the "**Waiver Option**"). Details of these special supportive measures are as follows:

- For the Deferment Option, pursuant to the March 1 Notice, we have formulated internal policies directing each business department, branch and sub-branch to accept, and timely process, loan payment deferment applications from the Affected Customers. These loan payment deferment options allow the Affected Customers to postpone their payments of principal and/or interest until no later than June 30, 2020, without being subject to penalty interest. As of March 31, 2020, under the Deferment Option, we had granted applications for temporary loan payment deferment with an aggregate principal of RMB341.0 million (which represented 0.1% of our total assets as of March 31, 2020) (of which RMB285.5 million was granted to micro and small enterprises or individual business owners) and aggregate interest of RMB32.4 million (which represented 1.3% of our total interest income for the three months ended March 31, 2020);

- In addition, we also offer, on a case-by-case basis, the Preferential Interest Rate Option to the Affected Customers aimed at alleviating their liquidity pressure, as part of our supportive measures and in line with our business strategy in developing and retaining quality clients. Applications for reduced interest rate are reviewed and approved in accordance with our established internal procedures and pricing policies. As of March 31, 2020, the total loans to micro and small enterprises that we granted with favorable interest rate in line with this supportive measure amounted to RMB354.6 million, with an average interest rate of 4.6% compared to the average interest rate of 6.1% without Preferential Interest Rate Option. As of the Latest Practicable Date, the aggregated amount of interest income generated from the Preferential Interest Rate Option amounted to RMB8.2 million; and

- Apart from the above measures, we also offer, on a case-by-case basis, the Waiver Option for qualified Affected Customers. Since we adopted the measures, we have (i) waived or reduced service fees for certain transitions conducive to countering the impact of COVID-19, such as remittance fees for transfers of donations and consolation funds, credit card late fees for medical personnel and COVID-19 patients; and (ii) waived certain penalties for late payment or interest for qualified Affected Customers, such as doctors, nurses, paramedics, anyone who were battling and helping those affected by the COVID-19 pandemic. For the three months ended March 31, 2020, the total service fees, penalties and interests we have waived in connection with our Waiver Option amounted to RMB2,074.7.

Given the limited scope of application of the above measures, as well as the severity of the COVID-19 outbreak in Shandong Province and in Tianjin Municipality, at this stage we consider that the above special supportive measures in response to the pandemic only have an immaterial impact on our business operation, our liquidity position, asset quality and the maturity profile of our loan portfolio based on the following reasons: (i) since March 2020, industries and enterprises in Shandong Province, Tianjin Municipality as well as in other regions in the PRC have gradually resumed operations and productions; (ii) the COVID-19 outbreak was less severe in Shandong Province and Tianjin Municipality compared to Hubei Province and since March 2020, Shandong Province and Tianjin Municipality have reported a decrease in confirmed infection cases; (iii) as of Latest Practicable Date, we had not experienced any material interruptions to our business operations and all of our outlets in Shandong Province and Tianjin Municipality had resumed business operations since March 2, 2020; and (iv) for the three months ended March 31, 2020, our net interest income and net profit had increased by 33.7% and 4.2%, respectively, as compared to the three months ended March 31, 2019.

In order to cope with the practical difficulties caused by travel restrictions or containment measures such as quarantine and curfews imposed by local government and the PRC Government during the pandemic, we actively promoted our online loan products through our electronic banking distribution channels, by leveraging our information technology prowess accumulated in the recent years. For more details, please see "Business — Our Principal Business Lines — Retail Banking — Personal Loans". We also set up an "expedite channels" ("綠色通道") to expedite the credit approval process for medical institutions and enterprises related to the prevention and control of the pandemic, to ensure that their needs for credit support are met with top priority.

RECENT DEVELOPMENTS

Our business has continued to experience growth since March 31, 2020 and up to the Latest Practicable Date, during which period we had issued certificates of interbank deposit in an aggregate principal amount of RMB17,130.0 million. For details, please see "Financial Information — Capital Resources — Debt — Debt Securities Issued".

In accordance with the Administrative Measures on the Capital of Commercial Banks (for Trial Implementation) 《商業銀行資本管理辦法(試行)》, Measures on Information Disclosure by Commercial Banks 《商業銀行信息披露辦法》 and Notice of China Banking Regulatory Commission on Promulgation of the Guidelines on Corporate Governance of Commercial Banks 《商業銀行公司治理指引》 issued by CBIRC as well as Measures on Supervision and Administration of Non-listed Public Companies 《非上市公眾公司監督管理辦法》 issued by the CSRC, we have published our unaudited consolidated interim financial information of the Group as of and for the six months ended June 30, 2020, prepared under PRC GAAP. As a result, we have included our unaudited interim financial information prepared according to IFRS in Appendix II to this prospectus. The financial information as of and for the six months ended June 30, 2020 included in Appendix II to this prospectus and certain financial information as shown below was extracted from our unaudited interim financial information prepared by our Directors in accordance with IAS 34 "Interim Financial Reporting", which was reviewed by BDO Limited, our reporting accountants, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. We have not provided a reconciliation of the unaudited interim financial information of the Group as there is no material difference in accounting treatment between PRC GAAP and IFRS.

The following tables set forth certain financial information as of the dates and for the periods indicated, including those as of and for the six months ended June 30, 2020.

	As of March 31, 2020[(1)]	As of June 30, 2020[(1)] (unaudited)
	(in millions of RMB, except percentages)	
Gross loans and advances to customers	103,666.0	108,562.8
Gross financial investments	93,804.3	103,844.8
NPL ratio	1.80%	1.77%
ECL rate for loans and advances classified as financial assets measured at amortized costs	3.12%	3.24%[(2)]
ECL rate for financial investments classified as financial assets measured at amortized costs	0.70%	1.00%[(3)]
Deposits from customers	154,874.6	167,291.3

Notes:

(1) IFRS 9 was adopted from January 1, 2018 onwards.

(2) Our ECL rate for loans and advances classified as financial assets measured at amortized costs increased slightly from 3.12% as of March 31, 2020 to 3.24% as of June 30, 2020 primarily (i) due to the uncertainties in the future economic recovery outside the PRC brought by the COVID-19 outbreak. Therefore we adjusted the forward-looking factors in the expected credit loss model including the macroeconomic situation; and (ii) due to the changes in our loan structure. The proportion of loans with maturity date of more than one year has increased from 48.8% as of March 31, 2020 to 52.5% as of June 30, 2020 which caused the ECL rate for loans and advances classified as financial assets measured at amortized costs to increase slightly as medium- and long-term loans (i.e. loans which have maturity date of more than one year) usually have more uncertainties than short-term loans.

(3) Our ECL rate for financial investments classified as financial assets measured at amortized costs increased from 0.70% as of March 31, 2020 to 1.00% as of June 30, 2020, which was primarily due to an increase in impairment allowance on our debt securities investment as a result of the adjustment of credit rating of some of our debt securities investments. In line with our risk management policies and our prudent approach in managing our investments in debt securities, we increased the impairment allowance and this caused the ECL rate for financial investments classified as financial assets measured at amortized costs increased at the same time.

	For the six months ended June 30,	
	2019[(1)] (unaudited)	2020[(1)] (unaudited)
	(in millions of RMB)	
Operating income	2,414.2	3,025.7
Net interest income	1,549.9	1,970.7
Impairment losses on assets	710.7	1,250.0
Impairment losses on loans and advances to customers	596.3	889.7

Note:

(1) IFRS 9 was adopted from January 1, 2018 onwards.

	For the six months ended June 30,			
	2019		2020	
	Amount	% of total	Amount	% of total
	(unaudited)		(unaudited)	
	(in millions of RMB, except for percentages)			
Corporate banking business[(1)]	1,419.3	58.8%	1,688.9	55.8%
Retail banking business	487.8	20.2%	705.4	23.3%
Financial markets business	508.4	21.1%	631.3	20.9%
Others[(2)]	(1.3)	(0.1%)	0.1	0.0%
Total operating income[(3)]	**2,414.2**	**100.0%**	**3,025.7**	**100.0%**

Notes:

(1) Our operating income from corporate banking business also included revenue derived from Tongda Financial Leasing Co.

(2) Consisted primarily of income that is not directly attributable to any specific business segment.

(3) Our operating income from these segments represents the net interest income derived solely from the respective lines of business, which is further added/deducted by net fee and commission income/(expense), net (losses)/gains on trading activities, net gains arising from investment securities or other operating income/(expense), as applicable, attributable to the respective lines of business.

	As of June 30, 2020 (unaudited)					
	Overdue[(1)]	Due in 3 months or less	Due over 3 months up to 12 months	Due over 1 year up to 5 years	Due in more than 5 years	Total
	(in millions of RMB)					
Maturity profile for loans and advances to customers	4,060.9	9,558.2	37,921.2	30,805.2	26,217.3	108,562.8
Maturity profile for deposit from customers	56,584.2	18,010.9	37,676.0	54,390.7	629.5	167,291.3

Note:

(1) Represented the balance of principal of the loans on which principal or interest was overdue as of June 30, 2020.

The following table sets forth selected profitability indicators for the periods indicated.

	For the six months ended June 30,	
	2019[(6)] (unaudited)	2020[(6)] (unaudited)
Return on average assets[(1)]	0.76%	0.68%
Return on average equity[(2)]	11.79%	11.32%
Net interest spread[(3)]	1.73%	1.95%
Net interest margin[(4)]	1.66%	1.85%
Cost-to-income ratio[(5)]	27.20%	21.71%

Notes:

(1) Calculated by dividing net profit attributable to shareholders of our Group for the period by the average balance of total assets at the beginning and the end of the period.

(2) Calculated by dividing net profit attributable to shareholders of our Group for the period by the average balance of equity attributable to shareholders of our Group at the beginning and the end of the period.

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

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

(5) Calculated by dividing total operating expenses (excluding taxes and surcharges) by total operating income.

(6) Calculated based on annualized basis.

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

	Regulatory requirement	As of June 30, 2020
Capital adequacy indicators		
Core tier-one capital adequacy ratio[(1)]	≥7.5%	8.73%
Tier-one capital adequacy ratio[(2)]	≥8.5%	10.51%
Capital adequacy ratio[(3)]	≥10.50%	14.44%
Asset quality indicators		
NPL ratio[(4)]	≤5.00%	1.77%
NPL (in million of RMB)	N/A	1,920.4
Percentage of loan overdue by more than 30 days	N/A	2.82%
Allowance coverage ratio[(5)]	≥150.00%	169.31%
Allowance to gross loan ratio[(6)]	≥2.50%	3.00%
Other indicator		
Loan-to-deposit ratio[(7)]	N/A	64.89%

Notes:

(1) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation — Supervision over Capital Adequacy " and "Financial Information — Capital Resources — Capital Adequacy".

(2) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation — Supervision over Capital Adequacy" and "Financial Information — Capital Resources — Capital Adequacy".

(3) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation — Supervision over Capital Adequacy" and "Financial Information — Capital Resources — Capital Adequacy".

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

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

(6) Calculated by dividing total allowance for impairment losses on loans to customers by gross loans and advances to customers.

(7) Calculated by dividing total loans and advances to customers by total deposits from customers.

- As of June 30, 2020, our total gross loans and advances increased slightly by 4.7% to RMB108,562.8 million from RMB103,666.0 million as of March 31, 2020, primarily driven by the gradual resumption of operations and productions of the industries and enterprises across Shandong Province and Tianjin Municipalities.
- As of June 30, 2020, our total gross financial investments increased by 10.7% to RMB103,844.8 million from RMB93,804.3 million as of March 31, 2020, primarily due to the increase in our investments in debt securities. As the overall investment returns on debt securities remained at relatively high level as compared to other products in the market, we adjusted and optimized our asset structure by increasing our investments in debt securities.
- As of June 30, 2020, our NPL ratio decreased slightly from 1.80% as of March 31, 2020 to 1.77% as of June 30, 2020, mainly because we continued to strengthen our credit risk management and carried out the process of collection.
- As of June 30, 2020, our total deposits from customers increased by 8.0% to RMB167,291.3 million from RMB154,874.6 million as of March 31, 2020, primarily due to the increase in deposits from corporate banking customers and retail banking customers over the same period, which was attributable to our marketing effects in the promoting our deposits products.
- For the first six months ended June 30, 2020, our operating income increased by 25.3% to RMB3,025.7 million from RMB2,414.2 million for the same period in 2019, primarily due to (i) a 27.2% increase in our net interest income from RMB1,549.9 million for the first six months ended June 30, 2019 to RMB1,970.7 million for the first six months ended June 30, 2020; and (ii) an increase of 30.5% in our net gains arising from investment securities from RMB681.1 million for the first six months ended June 30, 2019 to RMB888.6 million for the first six months ended June 30, 2020. The growth in our net interest income was primarily attributable to (i) the increase in our loans and advances to customers (especially fixed assets loans, residential loans and personal business loan) as a result of our continued development of our loan businesses; (ii) increase in the average yield on our loans products, primarily because we optimized our loan portfolio and allocate more resources to personal business loans which generally carry higher yields as compared with other products in our loan portfolio; and (iii) relative abundance of market liquidity, which resulted in a decrease in our average cost on interbank liabilities. The growth of our net gains arising from investment securities was primarily because we increased the transaction scale in our financial investments.
- For the first six months ended June 30, 2020, our impairment losses on assets increased by 75.9% to RMB1,250.0 million from RMB710.7 million for the same period in 2019, mainly because (i) our impairment losses on loans and advances to customers increased by 49.2% from RMB596.3 million for the first six months ended June 30, 2019 to RMB889.7 million for the first six months ended June 30, 2020 which was generally in line with the increase in the scale of the loans extended to our customers as well as due to the uncertainty brought by the impact of the economic slowdown during the first six months of 2020. As a result, we took the prudent approach in adjusting our forward-looking factors in the expected credit loss model, which caused an increase in the impairment losses on loans and advances; and (ii) our impairment losses on financial investment increased by 321.9% from RMB59.0 million to RMB248.9 million during the same period as a result of the

adjustments of credit ratings of some of our debt securities investments brought by the operational difficulties of certain corporate issuers. The operational difficulties of such corporate issuers were mainly caused by the adverse impacts of the COVID-19 outbreak and the PRC's economic slowdown during the first six months of 2020. In addition, as a result of our prudent approach in adjusting the forward looking factors in the expected credit loss model, our impairment losses on financial investment also increased during the first six months of 2020.

Primarily as a result of the forgoing factors, for the six months ended June 30, 2020, our operating income for our corporate banking business, retail banking business and financial market business were all witnessed an overall growth.

Having considered the latest development of the COVID-19 outbreak and the forward-looking information as of the Latest Practicable Date for estimation of the expected credit losses under the IFRS 9, based on the reasons as set forth above, we do not expect any material increase in impairment loss because of the COVID-19 outbreak. During the Track Record Period and up to the Latest Practicable Date, we did not issue any leverage products. Leverage products that we invested during the Track Record Period and up to the Latest Practicable Date did not result in any significant losses in view of the COVID-19 outbreak as well as the global economic downstream. We will continue to monitor the development of the COVID-19 outbreak, assess and actively respond to its impact on our customers, business operations, financial condition, and results of operations. For details, please see "Risk Factors — Risks Relating to our Business — The recent outbreak of the contagious COVID-19 may have an adverse effect on our business, financial condition and results of operations".

On September 10, 2020, we issued a 10 years tier-two capital bond with face value of RMB3.0 billion and with the option to redeem at the fifth year. The coupon interest rate per annum is 4.2% and the proceeds raised from this issuance will be used to replenish our tier-two capital base. In addition, we also received approval from the CBIRC recently to redeem our tier-two capital bond issued in September 2015 (face value of RMB3.0 billion and coupon interest rate of 5.2% per annum) on September 25, 2020.

Notwithstanding the outbreak of pandemic, our Directors confirm that there has been no material adverse impact to our financial or operational position from March 31, 2020 to the date of this prospectus, taking into account various factors, including our branch network, strong technical capability to deliver convenient online financial products and services, sound customer portfolio and stable asset quality, and the resilience of China's economic growth.

COMPETITIVE LANDSCAPE

As a city commercial bank mainly operating and based in Shandong Province, we mainly compete with other commercial banking institution with operations in Shandong Province such as Qingdao Bank, Qilu Bank, Weifang Bank, Qishang Bank, etc. In addition, with the rapid development of internet and information technologies of those internet-based and Fintech-based financial institutions and Online Banks, internet financial products including online and mobile wealth management products, and third-party payment have grown significantly in the PRC in recent years. As a result, we also face challenges from internet-based financial service providers, Fintech-based financial service providers as well as Online Banks in the PRC as these financial service providers and banks are virtual and not constrained by geography, unlike us, which has geographical limitations. We will need to submit applications to regulatory authorities if we plan to establish branches and sub-branches in areas outside Shandong Province. In addition, the CBIRC restricts city commercial banks from establishing branches and sub-branches outside of their home regions without specific approval. For more details, please see "Industry Overview — Competitive Landscape".

RISK FACTORS

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

The major risks relating to an investment in the Shares are as follows: (i) if we are unable to effectively maintain the quality and growth of our assets, our financial condition and results of operations may be materially and adversely affected; (ii) the recent outbreak of the contagious COVID-19 may have an adverse effect on our business, financial condition and results of operations; (iii) our allowance impairment losses on loans to customers may not be sufficient to cover the actual losses on our loan portfolio in the future; (iv) we face concentration risks from our credit exposure to certain industries, borrowers and geographic regions; (v) we are subject to risks relating to the value or realization of our collateral or guarantees securing our loans to customers; (vi) if we fail to maintain the growth rate of our deposits from customers or our deposits from customers decrease substantially, our liquidity, financial conditions and results of operations could be materially and adversely affected; (vii) we are subject to risks relating to SPV Investment and any adverse development in relation to underlying assets of our SPV Investment may materially and adversely affect our profitability and liquidity; (viii) we are subject to risks relating to investments in debt securities; (ix) we are exposed to risks arising from loans granted to micro and small enterprises; (x) changes in accounting standards or policies may materially affect our financial condition and results of operations; (xi) our assessments of impairment allowance and determinations of impairment losses are based on our expected credit loss model under IFRS 9 and it is based on factors beyond our control and is therefore subject to inherent limitation and uncertainties; and (xii) the effective operation of our business is highly dependent on the proper functioning and improvement of our information technology system. Any security breaches and attacks against our systems and network and any potentially resulting breach or failure to otherwise protect personal, confidential and proprietary information, could damage our reputation and negatively impact our business, as well as materially and adversely affect our financial condition and results of operations.

For details of the risk factors relating to an investment in our Shares, please see "Risk Factors".

LISTING EXPENSES

The listing expenses to be borne by us are estimated to be approximately RMB94.9 million, representing approximately 3.6% of the proceeds raised from the Global Offering (equivalent to approximately HK$108.8 million, assuming the Over-allotment Option is not exercised and that the mid-point of the indicative Offer Price range will be HK$3.43). None of the listing expenses were reflected in our statements of profit or loss and other comprehensive income during the Track Record Period. After March 31, 2020, approximately RMB8.0 million is expected to be charged to our statements of profit or loss and other comprehensive income, and approximately RMB86.9 million is expected to be accounted for as a deduction from equity. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such listing expenses to have a material adverse impact on our results of operations for the year ending December 31, 2020.

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

"Application Form(s)"	**WHITE**, **YELLOW** and **GREEN** application form(s) or, where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles of Association" or "Articles"	our articles of association, the version of which was adopted by our Shareholders at the annual general meeting of 2019 held on February 29, 2020 and was approved by CBIRC Shandong Office on March 27, 2020, which will become effective upon the Listing, as amended, supplemented or otherwise modified from time to time
"ATM(s)"	automated teller machine(s)
"Bank", "our Bank"	Weihai City Commercial Bank Co., Ltd.* (威海市商業銀行股份有限公司*), a joint stock company established on July, 1997 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches, excluding subsidiary
"Banking (Disclosure) Rules"	the Banking (Disclosure) Rules, Chapter 155M of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Banking Ordinance"	the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Basel Accords"	Basel I, Basel II and Basel III, collectively
"Basel I"	the Basel Capital Accord promulgated in 1988
"Basel II"	the Revised Basel Capital Framework promulgated in June 2004
"Basel III"	the Revised Basel Capital Accord promulgated in December 2010

"Board" or "Board of Directors"	the board of Directors, as described in "Appendix VI — Summary of Articles of Association"
"Board of Supervisors"	the board of Supervisors, as described in "Appendix VI — Summary of Articles of Association"
"Bohai Rim"	the economic region surrounding Beijing and Tianjin. It also includes areas in Hebei Province, Liaoning Province and Shandong Province surrounding the Bohai Sea
"building ownership certificates"	building ownership certificates in the PRC (中華人民共和國房屋所有權證)
"Business Day(s)"	any day(s) (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public
"CAGR"	compound annual growth rate
"CASBE"	the China Accounting Standards for Business Enterprises
"Capital Adequacy Measures"	the Administrative Measures for Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法) promulgated by the CBRC on February 23, 2004, effective as of March 1, 2004 and amended on July 3, 2007, which was later abolished by the Capital Administrative Measures (Provisional) on January 1, 2013
"Capital Administrative Measures (Provisional)"	the Capital Administrative Measures for Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) promulgated by the CBRC on June 7, 2012 and effective on January 1, 2013
"CBA"	China Banking Association (中國銀行業協會)
"CBIRC"	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), a regulatory authority formed via the merger of the CBRC and CIRC according to the Notice of the State Council regarding the Establishment of Organizations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on March 24, 2018, and, if the context requires, includes its predecessors, namely the CBRC and CIRC

"CBIRC Shandong Office"	China Banking and Insurance Regulatory Commission Shandong Office, and, if the context requires, includes its predecessor, the CBRC Shandong Office
"CBRC"	China Banking Regulatory Commission (中國銀行業監督管理委員會), which was recently merged with the CIRC and formed the CBIRC according to the Notice of the State Council regarding the Establishment of Organizations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on March 24, 2018
"CBRC Shandong Office"	China Banking Regulatory Commission Shandong Office
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CFETS"	China Foreign Exchange Trading System & National Interbank Funding Centre (中國外匯交易中心暨全國銀行間同業拆借中心)
"China" or "PRC"	the People's Republic of China, but for the purpose of this prospectus only and, unless the context otherwise requires, excluding Hong Kong, Macau and Taiwan
"CIRC"	China Insurance Regulatory Commission (中國保險監督管理委員會), which was recently merged with the CBRC and formed the CBIRC according to the Notice of the State Council regarding the Establishment of Organizations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on March 24, 2018

"city commercial banks"	city commercial banks established with the approval of CBIRC and other regulatory authorities pursuant to the PRC Company Law and the PRC Commercial Bank 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
"commercial banks"	all of the banking institutions in the PRC, other than policy banks, which includes the Large Commercial Banks, the Nationwide Joint-stock Commercial Banks, city commercial banks and urban credit cooperatives, rural cooperative financial institutions, foreign banks and other banking institutions
"Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"connected person(s)"	has the same meaning ascribed to it under Chapter 14A of the Listing Rules
"Controlling Shareholder(s)"	has the same meaning ascribed to it under the Listing Rules, and unless the context otherwise requires, refers to Shandong Hi-Speed Group Company and Shandong Hi Speed which together is a group of controlling shareholders of the Bank
"Core Indicators (Provisional)"	the Core Indicators for the Risk Management of Commercial Banks (Provisional) (商業銀行風險監管核心指標(試行)), as promulgated by the CBRC on December 31, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time

"Corporate Governance Guidelines"	the Guidelines on Corporate Governance of Commercial Banks (商業銀行公司治理指引), as promulgated by the CBRC on July 19, 2013 and effective on the same date, as amended, supplemented or otherwise modified from time to time
"COVID-19"	a newly identified coronavirus known to cause contagious respiratory illness
"CRM system"	Client Relationship Management System
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Directly Administered Sub-branch(es) (直屬支行)"	refer to two sub-branches in Weihai City which are directly administered by our headquarters, including Gaoxin Directly Administered Sub-branch (高新支行) and Lingang Technology and Economic Development Zone Directly Administered Sub-branch (臨港技術經濟開發區支行)
"Director(s)"	the director(s) of the Bank
"Domestic Shares"	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
"Eastern China"	is a geographical region region that covers the eastern coastal area of China, which, for the purpose of this prospectus, including Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
"ECL"	expected credit loss
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
"GDP"	gross domestic product
"GFA"	gross floor area
"Global Offering"	the Hong Kong Public Offering and the International Offering

"**GREEN** application form(s)"	the application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
"Group", "we" or "us"	our Bank together with our subsidiary, and, if the context requires, includes our predecessors, branches and sub-branches
"H Share(s)"	the ordinary share(s) to be issued by the Bank in Hong Kong under the Global Offering with a nominal value of RMB1.00 each, which is/are to be subscribed for and traded in Hong Kong Dollars and to be listed and traded on the Hong Kong Stock Exchange
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"heavy pollution, high energy consumption or overcapacity"	a term generally used to describe industries associated with heavy pollution, high energy consumption or overcapacity such as steel, coal, cement and plate glass industries. While PRC Government has imposed certain restrictions on these industries, it often encourages and supports the growth of enterprises within the sector who have advanced production capacity and are dedicated to promoting clean production and technology innovation
"high-end corporate banking customer"	refers to corporate banking customers that fall into one or more of the following categories: (i) customers that maintained an average daily deposit with us of not less than RMB50.0 million in the previous year; or (ii) customers that are able to provide us with an interest income and service fees of not less than RMB1.0 million per year; or (iii) enterprises that have RMB1.0 billion or more in revenue; or (iv) large enterprises under the control of SASAC; or (v) enterprises that are listed on stock exchange; or (vi) enterprises that have total assets of not less than RMB10.0 billion
"HK$" or "HKD" or "Hong Kong Dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"HKIAC"	Hong Kong International Arbitration Centre

"HKMA"	the Hong Kong Monetary Authority
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Offer Shares"	87,728,000 H Shares (subject to adjustment) offered in the Hong Kong Public Offering
"Hong Kong Public Offering"	the offer for subscription of the Hong Kong Offer Shares (subject to adjustment) by the public in Hong Kong at the Offer Price and on, and subject to, the terms and conditions of this prospectus and the Application Forms relating thereto, as described in "Structure of the Global Offering — Hong Kong Public Offering"
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters listed in "Underwriting — Hong Kong Underwriters"
"Hong Kong Underwriting Agreement"	the underwriting agreement relating to the Hong Kong Public Offering dated September 25, 2020 entered into among our Bank, the Joint Global Coordinators and the Hong Kong Underwriters, as described in "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement"
"IAS 17"	International Accounting Standard 17 "Accounting for Leases"
"IAS 18"	International Accounting Standard 18 "Revenue"
"IAS 39"	International Accounting Standard 39 "Financial Instruments"

"IFRS"	International Financial Reporting Standards and International Accounting Standards, which include the related standards, amendments and interpretations issued by the International Accounting Standards Board
"IFRS 9"	International Financial Reporting Standard 9 "Financial Instruments"
"IFRS 15"	International Financial Reporting Standard 15 "Revenue from Contracts with Customers"
"IFRS 16"	International Financial Reporting Standard 16 "Leases"
"independent third party(ies)"	a person or entity who is not considered a connected person of the Bank under the Listing Rules
"Interim Provisions on the Standards for Medium and Small Enterprises"	the Interim Provisions on the Standards for Medium and Small Enterprises (中小企業標準暫行規定) jointly promulgated by the State Economic and Trade Commission (國家經濟貿易委員會), the State Development Planning Commission (國家發展計劃委員會), MOF and NBS in 2003, which was replaced by the Classification Standards of Small and Medium Enterprises on June 18, 2011
"Internal Credit Rating"	refers to our internal credit rating we assigned to each potential borrowers based on various financial and non-financial information and is not related to external credit rating such as those from Fitch Ratings, Moody's Investors Service or Standard & Poor's. For details of our internal credit rating, please see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans – Pre-Loan Investigations – Customer Application, Pre-loan Investigation and Credit Rating"
"International Offer Shares"	789,543,000 H Shares initially offered by the Bank pursuant to the International Offering together, where relevant, with any additional H Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in "Structure of the Global Offering"

"International Offering"	conditional placement by the International Underwriters of the International Offer Shares, as further described in "Structure of the Global Offering"
"International Underwriters"	the underwriters of the International Offering who are expected to enter into the International Underwriting Agreement
"International Underwriting Agreement"	the underwriting agreement relating to the International Offering which is expected to be entered into by, among others, the International Underwriters and us on or around the Price Determination Date
"Industry Rating"	refers to industry rating given by China Trustee Association to trust companies
"Joint Bookrunners"	Huatai Financial Holdings (Hong Kong) Limited, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, CSFG International Securities Limited, Forthright Securities Company Limited, Sheng Yuan Securities Limited, Zhongtai International Securities Limited, CCB International Capital Limited, ABCI Capital Limited, ICBC International Capital Limited, Haitong International Securities Company Limited and AMTD Global Markets Limited
"Joint Global Coordinators"	Huatai Financial Holdings (Hong Kong) Limited, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited and CSFG International Securities Limited
"Joint Lead Managers"	Huatai Financial Holdings (Hong Kong) Limited, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, CSFG International Securities Limited, Forthright Securities Company Limited, Sheng Yuan Securities Limited, Zhongtai International Securities Limited, CCB International Capital Limited, ABCI Securities Company Limited, ICBC International Securities Limited, Haitong International Securities Company Limited, AMTD Global Markets Limited and Maxa Capital Limited

"Joint Sponsors"	Huatai Financial Holdings (Hong Kong) Limited, China International Capital Corporation Hong Kong Securities Limited and CMB International Capital Limited
"Large Commercial Banks"	Agriculture Bank of China Limited, Bank of China Limited, Bank of Communications Co., Ltd., China Construction Bank Corporation, Industrial, Commercial Bank of China Limited, and unless the context otherwise requires, including Postal Saving Bank of China Co., Ltd., collectively
"large enterprises"	the enterprises other than those classified as medium, small or micro enterprises under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with 1,000 or more employees and operating income of RMB400.0 million or more shall be classified as large enterprises
"Latest Practicable Date"	September 20, 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"LGFV"	being the abbreviation for local government financing vehicles
"Listing"	the listing of the H Shares on the Hong Kong Stock Exchange
"Listing Date"	the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Macau"	the Macau Special Administrative Region of the PRC
"Mandatory Provisions"	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), which were promulgated by the former Securities Commission of the State Council and the former State Commission for Restructuring the Economic System on August 27, 1994, effective on the same date, as amended, supplemented or otherwise modified from time to time

"medium enterprises"	the enterprises classified as medium enterprises based on the number of their employees, operating income, and total assets under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 1,000 employees or operating income of less than RMB400 million shall be classified as SMEs, among which those with 300 or more employees and operating income of RMB20 million or more shall be classified as medium enterprises
"micro enterprises"	the enterprises classified as micro enterprises based on the number of employees, operating income, and total assets under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 20 employees or operating income of less than RMB3 million shall be classified as micro enterprises
"MIIT"	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"NAFMII"	The National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會)
"NAO"	the National Audit Office of the PRC (中華人民共和國審計署)
"Nationwide Joint-stock Commercial Banks"	China CITIC Bank Corporation Limited, China Everbright Bank Co., Ltd., Huaxia Bank Co., Limited, China Guangfa Bank Co., Ltd., Ping An Bank Co., Ltd. (formerly named as Shenzhen Development Bank Co., Ltd.), China Merchants Bank Co., Ltd., Shanghai Pudong Development Bank Co., Ltd., Industrial Bank Co., Ltd., China Minsheng Bank Corp., Ltd., Evergrowing Bank Co., Ltd., China Zheshang Bank Co., Ltd. and China Bohai Bank Co., Ltd., collectively
"NAV"	net asset value, calculated as the total value of an entity's assets minus the total value of its liabilities

"NBS"	the National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"net capital"	core tier-one capital, additional tier-one capital and tier-two capital of a bank less corresponding capital deductions, in each case, as specified in the relevant CBRC regulations
"New Normal"	refers to a new phase that Chinese economy has entered that is different from the high-speed growth pattern exhibited in the past. The new economic phase features more sustainable, mid- to high-speed growth with higher efficiency and lower costs
"non-performing loan(s)" or "NPL(s)"	for the purposes of this prospectus, is used synonymously with "impaired loans and advances" in Note 18 to the Accountants' Report in Appendices I to this prospectus
"non-performing loan ratio" or "NPL ratio"	the percentage ratio calculated by dividing non-performing loans by total loans and advances
"Non-Systematically Important Bank(s)"	refer to banks which are not Systematically Important Bank(s)
"Northern China"	is a geographical region that covers the North area of China, which, for the purpose of this prospectus, includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
"Offer Price"	the final Hong Kong dollar offer price per H Share (exclusive of any brokerage fee, SFC transaction levy and the Hong Kong Stock Exchange trading fee) at which the H Shares are to be subscribed for and issued pursuant to the Global Offering, to be determined as described in "Structure of the Global Offering"
"Offer Shares"	the H Shares offered in the Global Offering and, where relevant, any additional H Shares issued pursuant to the exercise of the Over-allotment Option

"Online Bank(s)"	refers to bank(s) that operate without a physical branch(es) to deliver banking services where its customers can access a broad of products and services through internet
"Over-allotment Option"	the option to be granted by the Bank to the International Underwriters exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, details of which are described in "Underwriting — The International Offering"
"PBoC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"POS"	point of sale, a checkout terminal in a shop or any location where a transaction occurs
"PRC Banking Supervision and Regulatory Law"	the Banking Supervision and Regulatory Law of the People's Republic of China (中華人民共和國銀行業監督管理法), which was promulgated by 6th session of the Standing Committee of the 10th National People's Congress on December 27, 2003 and became effective on February 1, 2004, as amended, supplemented or otherwise modified from time to time
"PRC Commercial Banking Law"	the Commercial Banking Law of the PRC (中華人民共和國商業銀行法), which was promulgated by the 13th session of the Standing Committee of the 8th National People's Congress on May 10, 1995 and became effective on July 1, 1995, as amended, supplemented or otherwise modified from time to time
"PRC Company Law"	the Company Law of the PRC (中華人民共和國公司法), as enacted by the 5th session for the Standing Committee of the 8th National People's Congress on December 29, 1993 and became effective on July 1, 1994, as amended, supplemented or otherwise modified from time to time
"PRC GAAP"	the PRC Accounting Standards for Business Enterprises (中國企業會計準則) promulgated by MOF on February 15, 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time

"PRC Government"	refers to the PRC central government and local governments
"PRC Legal Advisors"	refer to Beijing Dentons Law Offices, LLP to our Bank as to PRC Laws
"PRC PBoC Law"	the Law of the People's Bank of China of the PRC (中華人民共和國人民銀行法), which was promulgated by the 3rd session of the Standing Committee of the 8th National People's Congress on March 18, 1995 and became effective on the same date, as amended, supplemented or otherwise modified from time to time
"PRC Securities Law"	the Securities Law of the PRC (中華人民共和國證券法), as enacted by the 6th meeting of the 9th Standing Committee of the National People's Congress of the PRC (中華人民共和國全國人民代表大會) on December 29, 1998 and became effective on July 1, 1999, as amended, supplemented or otherwise modified from time to time
"prefecture-level city(ies)"	formerly known as province-administrated city (ies). It is an administrative division of the PRC, ranking below a province and above a county in PRC's administrative structure
"Price Determination Agreement"	the agreement to be entered into among the Bank and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price
"Price Determination Date"	the date, expected to be on or around October 6, 2020, on which the Offer Price is to be fixed by an agreement between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) for purpose of the Global Offering
"Qilu Transportation"	Qilu Transportation Development Group Co., Ltd. (齊魯交通發展集團有限公司), a company established in the PRC on June 30, 2015, which, upon completion of the Joint Reorganisation, will be merged with Shandong Hi-Speed Group Company, the details are set out in "Our History and Development — Joint Reorganisation of Shandong Hi-Speed Group Company and Qilu Transportation" of this prospectus

"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 (商業銀行與內部人和股東關聯交易管理辦法) promulgated by the CBRC, Accounting Standards for Business Enterprises (企業會計準則) promulgated by the MOF, and/or IFRS
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RRR"	required rate of return
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council (中華人民共和國國務院國有資產監督管理委員會)
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"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
"Shandong Government"	The People's Government of Shandong Province (山東省人民政府)

"Shandong Hi-Speed"	Shandong Hi-Speed Company Limited (山東高速股份有限公司), a company incorporated in the PRC on November 16, 1999, which shares are listed on the Shanghai Stock Exchange (stock code: 600350), a non-wholly owned subsidiary of Shandong Hi-Speed Group Company, and a substantial shareholder of our Bank
"Shandong Hi-Speed Group"	Shandong Hi-Speed Group Company and its subsidiaries
"Shandong Hi-Speed Group Company"	Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司) (former name includes: Shandong Highway Co., Ltd. (山東省高速公路有限責任公司), Shandong Highway Limited (山東省高速公路有限公司) and Shandong Highway Group Co., Ltd. (山東省高速公路集團有限公司)), a company incorporated in the PRC on July 2, 1997 and a controlling shareholder of our Bank
"Shandong SASAC"	State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government (山東省人民政府國有資產監督管理委員會)
"Share(s)"	ordinary share(s) in the share capital of the Bank with a nominal value of RMB1.00 each
"Shareholder(s)"	the holder(s) of the Shares
"SHIBOR"	the Shanghai Interbank Offered Rate, a daily reference rate published by the National Interbank Funding Center
"small enterprises"	the enterprises classified as small enterprises based on the number of employees, operating income, and total assets under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 300 employees or operating income of less than RMB20 million shall be classified as small or micro enterprises, among which those with 20 or more employees and operating income of RMB3 million or more shall be classified as small enterprises

"SME(s)"	the enterprises classified as micro enterprises, small enterprises and medium enterprises based on the number of employees, operating income, and total assets under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 1,000 employees or operating income of less than RMB400 million shall be classified as SMEs
"Special Regulations"	the Special Regulations of the State Council on the Overseas Offering and the Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), which was promulgated by the State Council on August 4, 1994, as amended, supplemented or otherwise modified from time to time
"SPV Investment"	investments made by financial institutions in special purpose vehicles, including but not limited to, wealth management products managed by commercial banks, trust plans managed by trust companies, asset management plans and securities investment funds managed by fund management companies and securities firms (including their subsidiaries), asset management products managed by insurance asset management companies, which is defined in Notice on Regulating Interbank Businesses of Financial Institutions (Yin Fa [2014] No. 127) (《關於規範金融機構同業業務的通知》(銀發[2014]127號)) jointly promulgated by PBoC, CBRC, CSRC, CIRC and SAFE on April 24, 2014
"Stabilizing Manager"	Huatai Financial Holdings (Hong Kong) Limited
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Structured Deposit 2019 Notice"	the Notice of Further Regulating the Structured Deposit Business of Commercial Banks (《關於進一步規範商業銀行結構性存款業務的通知》) promulgated by the CBIRC on the October 18, 2019
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Supervisor(s)"	the supervisor(s) of the Bank

"Supervising Division(s) (管轄行)"	refers to one or all of our seven supervising divisions in Weihai City which conduct the business activities within the scope of authorization by our headquarters, including Business Center Supervising Division, Gaoqu Supervising Division, Huancui Supervising Division, Jingqu Supervising Division, Rongcheng Supervising Division, Rushan Supervising Division and Wendeng Supervising Division
"Systematically Important Bank(s)"	pursuant to the Guiding Opinions on Improving Regulation of Systematically Important Financial Institutions issued by PBoC, CBIRC and CSRC (《中國人民銀行、中國銀行保險監督管理委員會、中國證券監督管理委員會關於完善系統重要性金融機構監管的指導意見》), this refers to bank(s) that will cause significant adverse impact on the financial system and real economy and may even cause systemic risks if a major risk event occurs to them. These banks usually provide key services in the financial system and are difficult to replace and at the same time their business scale, structure and business operation are highly complex and have strong relevance to other financial institutions
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buybacks
"Tongda Financial Leasing Co."	Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司), a limited liability company and a non-bank financial institution established in the PRC in June, 2016 in which we hold a 59.09% equity interest as of the Latest Practicable Date
"Track Record Period"	the years ended December 31, 2017, 2018, 2019 and three months ended March 31, 2020
"Underwriters"	collectively, the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	collectively, the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"US$", "USD" or "U.S. dollars"	United States dollars, the lawful currency of the United States of America

"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant's own name
"**White Form eIPO**"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of **White Form eIPO** at **www.eipo.com.hk**
"**White From eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"Yangtze River Delta"	economic region which, for the purpose of this prospectus, covers Shanghai, Jiangsu Province, Anhui Province and Zhejiang Province of the PRC
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS

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

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

For the purpose of this prospectus, unless otherwise mentioned, (i) "micro and small enterprises" under our Bank's retail banking segment refers to individual business owners and owners/legal representatives of micro and small enterprises; and (ii) "micro and small enterprises" under our Bank's corporate banking segment refers to micro enterprises and small enterprises but excluding individual business owners who might fall under the micro enterprises category.

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

For the purpose of this prospectus, "average balance" refers to the daily average balance.

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

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

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

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

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

RISKS RELATING TO OUR BUSINESS

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

Our financial condition and results of operations will be affected by our ability to maintain and improve the quality of our loan portfolio. Our gross loans and advances to customers amounted to RMB66,518.6 million, RMB75,195.7 million, RMB92,451.6 million and RMB103,666.0 million as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. As of the same dates, the balance of our non-performing loans amounted to RMB978.4 million, RMB1,370.3 million, RMB1,668.3 million and RMB1,870.6 million, respectively, and our non-performing loan ratio was 1.47%, 1.82%, 1.80% and 1.80%, respectively. The increase in the balance of our NPLs during the Track Record Period was primarily due to (i) the slowdown of the PRC's economic growth and the adjustment of industrial structure, which caused the financial conditions of some of our borrowers to deteriorate, which in turn has led them to default on repayment of their loans granted by us; and (ii) we started to categorize loans overdue by over 90 days as NPLs in 2018, which was a new standard issued by CBIRC that requires banks to classify all loans overdue by over 90 days as NPLs by the end of 2018. For the analysis of our non-performing loans during the Track Record Period, please refer to "Assets and Liabilities — Asset Quality of Our Loan Portfolio — Distribution of Loans by Loan Classification". For details of the industry average, please see "Industry Overview — PRC Banking Industry".

Our financial condition and results of operations will be affected by our ability to maintain or improve the quality of our assets, including our loans to customers and investments in debt securities and SPV Investment. Deterioration in the overall quality of our assets may occur due to a variety of reasons that are beyond our control, including, but not limited to, a slowdown of the PRC's or Shandong Province's economy, adverse macroeconomic developments in the PRC, fluctuation in capital markets, an outbreak of disasters or occurrence of major accidents in the PRC or other regions. All of these may adversely affect the businesses, operations, or liquidity of our customers, counterparties or ultimate financing parties of our business and we may not be able to realize the value of our assets secured through collaterals or guarantees. In particular, any significant deterioration in our asset quality may lead to significant increases in our non-performing loans, allowance for impairment losses, and loans written off due to impairment, which may materially and adversely affect our business, financial condition, and results of operations.

In addition, we cannot assure you that we can always successfully achieve the growth of our assets and business, offer new products to attract new customers, improve our marketing efforts, or expand our sales channels. Maintaining the growth of our business will require substantial managerial and operational resources and additional capital, and we may not be able to obtain such capital on acceptable terms. Any changes in the above factors may materially and adversely affect our business, financial condition and results of operations.

The recent outbreak of the contagious COVID-19 may have an adverse effect on our business, financial condition and results of operations.

The recent outbreak of COVID-19 is an infectious disease caused by a new virus and is highly contagious and known to causes respiratory illness with symptoms such as a cough, fever, and in more severe cases, difficulty in breathing, and is rapidly evolving. Due to the pandemic nature of COVID-19, as of the Latest Practicable Date, many countries around the world have restricted free movement and set up border controls. In addition, most of the countries around the world have adopted stringent measures in order to contain and tackle the spread of COVID-19, including containment measures such as quarantines (known as stay-at-home orders, shelter-in-place orders, or lockdown) and curfews. Such stringent measures, including mandatory quarantines and travel restrictions, were also imposed in numerous regions across the PRC in an effort to contain the outbreak, causing a noticeable reduction in regional and national economic activities, especially in the wholesale and retail sector, which may in turn heighten some of our customers' credit risks and adversely affect our loan portfolio and asset quality.

Since the outbreak, the PRC Government has introduced a wide range of fiscal and monetary easing initiatives and supporting measures aimed at countering the impact of the pandemic, including encouraging banks and financial institutions to enhance their credit support to enterprises and individuals most severely affected. For details of these fiscal and monetary easing initiatives and supporting measures, please see "Summary — Recent Developments" and "Industry Overview — Impact of COVID-19 Outbreak" for more details. We have launched special supportive measures in prompt response to these initiatives. For more details, please see "Summary — Recent Developments". The implementation of these measures may adversely affect the maturity profile of our loan portfolio, asset quality and liquidity position. We cannot predict if and how such regulatory initiatives and instructions will change in the future, and such initiatives and measures may affect our business decision-making and relationship with our customers. We will continue to monitor the development of the COVID-19 outbreak, assess and actively respond to its impact on our customers, business operations, financial condition, and results of operations.

In addition, under IFRS 9 which we have adopted since January 1, 2018, for financial assets that will be classified as "amortized cost" or "fair value through other comprehensive income" under IFRS 9, we are 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. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognized. Instead, we are required to recognize and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances, which will result in an early recognition of credit losses. Having considered the latest development of the COVID-19 outbreak and the forward-looking information as of the Latest Practicable Date for estimation of the expected credit losses under the IFRS 9, we do not expect any material increase in impairment loss as a result of the COVID-19 outbreak. However, should there is any further deterioration of current pandemic condition or if macro-economic conditions or the business operation of our customers did not recover as we expect, we shall re-evaluate existence of pre-condition for recognizing credit loss. Should this take place, our financial conditions and results of operation could be materially and adversely affected.

We cannot foresee whether the outbreak of COVID-19 will be effectively contained, nor can we predict the severity and duration of its impact. If the outbreak is not effectively and timely controlled, which is beyond our control, our business operations, asset quality and financial condition may be materially and adversely affected due to deteriorating market outlook and sentiments, slowdown in regional and national economic growth, weakened liquidity and financial condition of our customers (especially micro and small enterprises), or other factors that we cannot foresee at this stage. For instance, if the outbreak is not effectively contained or if there is a second outbreak, the fair value of our financial assets measured at fair value could decrease due to deteriorate market condition or investors' confidence. In addition, as the COVID-19 outbreak is much more than a health crisis, it has the potential to create devastating social, economic and political crisis.

Any of these factors and other factors beyond our control could have an adverse and material effect on the overall business environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

Our allowance on impairment losses on loans to customers and financial investments may not be sufficient to cover the actual losses on our loan portfolio and our financial investment portfolio in the future.

As of December 31, 2017, 2018, 2019 and March 31, 2020, the balance of our non-performing loans was RMB978.4 million, RMB1,370.3 million, RMB1,668.3 million and RMB1,870.6 million, respectively. Our allowance on impairment losses on loans to customers was RMB1,721.2 million, RMB2,237.2 million and RMB2,760.9 million and RMB3,004.1 million as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively, and our allowance coverage ratio was 175.93%, 163.26%, 165.50% and 160.60%, respectively. As of the same dates, our allowance to gross loan ratio was 2.59%, 2.98%, 2.99% and 2.90%, respectively. As of December 31, 2017, 2018, 2019 and March 31, 2020, our impairment losses on assets was RMB511.2 million, RMB1,335.3 million, RMB1,671.2 million and RMB634.3 million, respectively and our allowance for impairment losses on financial investments at amortized cost was RMB367.5 million, RMB169.9 million, RMB300.5 million and RMB365.5 million, respectively. We determine impairment allowance amount based on our assessment of various factors affecting the quality of our loan portfolio and our financial investment portfolio. These factors include our borrowers' operational and financial condition, repayment ability, intention to repay, the realizable value of any collateral and the ability of guarantors of our customers to fulfill their obligations, as well as China's economic, legal and regulatory environment. For details of our impairment losses on loans to customers, please refer to "Assets and Liabilities — Assets — Allowance for Impairment Losses on Loans to Customers". Many of these factors are beyond our control, and, as a result, our assessments and expectations on these factors may differ from the actual situations. In addition, our impairment allowance may increase due to future regulatory and accounting policy changes, deviations in loan classification or adoption of a more conservative provisioning practice. Any of the above factors may significantly reduce our profit and materially and adversely affect our business, prospects, financial condition and results of operations.

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

As of December 31, 2017, 2018, 2019 and March 31, 2020, our corporate loans represented 77.0%, 71.0%, 68.7% and 68.3% of our total loans and advances to customers, respectively. As of March 31, 2020, our loans to the manufacturing, leasing and business services, construction, water conservancy, environment and public facilities management and wholesale and retail, which were the top five industries from which our corporate loan customers are derived, represented 24.7%, 15.4%, 11.9%, 10.6% and 10.5% of our total corporate loans, respectively. As of March 31, 2020, the non-performing loan ratio for loans to corporate borrowers in these five industries was 5.18%, nil, nil, 1.74% and 9.37%, respectively.

As of March 31, 2020, 2.47% of our corporate loans were granted to the steel, coal, cement and plate glass industries, which are commonly associated with heavy pollution, high energy consumption or overcapacity in China, and the NPL ratio of these loans was 2.11%, 0.34%, 0.82% and 0.84% as of December 31, 2017, 2018, 2019 and March 31, 2020. In recent years, PRC Government has promulgated policies to restrict loans to industries with heavy pollution, high energy consumption or overcapacity. Any significant changes in such policies could adversely affect our credit extension and credit risk exposure in these industries to some extent. For details on how we manage our credit risks arising from this sector, please see "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Portfolio Management — Credit Risk Management for Loans to Industries with Heavy Pollution, High Energy Consumption or Overcapacity".

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

As of March 31, 2020, loans to our ten largest single borrowers totaled RMB10,427.8 million, representing 42.51% of our net capital and were all classified as normal. As of the same date, our credit exposure to our ten largest group customers totaled RMB15,701.8 million, representing 64.02% of our net capital and were all classified as normal. If these loans deteriorate in quality or becomes non-performing, our asset quality could deteriorate significantly, and our financial condition and results of operations could be materially and adversely affected.

Furthermore, our business and operations are primarily concentrated in Shandong Province and, in particular, Weihai City. As of December 31, 2017, 2018, 2019 and March 31, 2020, 34.1%, 34.5%, 33.9% and 32.8%, respectively, of our loans to customers originated from Weihai City, while 44.6%, 50.7%, 50.5% and 46.5%, respectively, of our deposits from customers originated from Weihai City. In addition, most of our business and operations are expected to remain in Shandong Province for the foreseeable future. Therefore, our continued growth depends to a large extent on the continued growth of Shandong Province and Weihai City's economy, and we are exposed to risks arising from concentration of loans extended in Shandong Province and in Weihai City. If the local economy of a select region within Shandong Province slows down or experiences negative development, we will take into account various factors to determine cautious measures to reduce our risk exposure including disposal of certain NPLs to mitigate risks associated with the select region. These factors include our overall strategy in terms of business development in different regions and our needs for liquidity risk and credit risk control. Although we have policies in place to mitigate such risks, any adverse change in the economic development of or any significant natural disaster or catastrophic event occurring in Shandong Province or Weihai City, or any material adverse change in financial condition of our customers in this region or any party to whom they provide guarantees, may materially and adversely affect our business, financial condition and results of operations.

We are subject to risks relating to the value or realization of our collateral or guarantees securing our loans to customers.

As of March 31, 2020, 37.6%, 6.2% and 39.7% of our total loans to customers were secured by collateral, pledges, and guarantees, respectively. The collateral and pledges securing our loans to customers primarily comprised land use rights, buildings and houses, certificates of deposit, equity, and other assets. The value of the collateral and pledges securing our loans may fluctuate and decline due to various factors beyond our control, including macroeconomic factors affecting China. For example, a slowdown in the PRC economy may lead to a downturn in the real estate market, which, in turn, may result in declines in the value of the real estate assets securing our loans to levels below the outstanding principal balance of said loans. In addition, we cannot assure you that our assessment of the value of collateral or pledges will be accurate at all times. If the collateral or pledges prove to be insufficient to cover the related loans, we may have to obtain additional collateral or pledges from the borrowers, however, we cannot assure you that we would be able to do so on satisfactory terms or at all. Reduction in value of our collateral and pledges or our inability to obtain additional collateral or pledges may result in additional impairment allowance, which may materially and adversely affect our business, financial condition, and results of operations.

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

The guarantees under our guaranteed loans are generally not backed by sufficient collateral or other security interests. In addition, some of the guarantees are provided by affiliates of the relevant borrower. As a result, certain factors which affect a borrower's ability to repay a guaranteed loan in full and on time may also affect the affiliated guarantor's ability to fully perform its guarantee obligations. In particular, excessive guarantees provided by borrowers or guarantors of our loans and advances towards third parties may negatively affect (i) borrowers' capacity of making timely repayment or (ii) the value of collateral or guarantee provided by relevant guarantor securing relevant loans. In addition, we are subject to the risk that a court or any other judicial or government authority may declare a guarantee invalid or refuse to enforce such guarantee if, for example, (i) the guarantor providing the guarantee lacked the capacity or proper authorization to do so, which renders the guarantee agreement invalid in the first place, (ii) the loan agreement entered into was invalid, or (iii) the guarantee violates applicable laws and regulations, or damages national or public interest. If we are unable to dispose of the assets of borrowers at reasonable terms or in a timely manner, and guarantors or if the guarantors fail to fully perform their guarantee obligations on a timely basis, our business, financial condition, and results of operations may be materially and adversely affected.

As of March 31, 2020, unsecured loans accounted for 7.9% of our total loans to customers. We granted such unsecured loans mainly based on our credit evaluation of such customers. We cannot assure you that our credit assessments of such customers are or will be accurate at all times, or that such customers will repay their loans in full and on time. As we have only general claims on the assets of defaulting borrowers under loans not secured by collateral or pledges, we are exposed to risk of losing the entire outstanding amount under such loans, which may adversely affect our business, financial condition and results of operations.

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

Deposits from customers have been our primary funding source. We rely on the growth in deposits from customers to expand our loan business and meet other liquidity needs. Decreases in deposits from customers will reduce our sources of funding, which, in turn, will reduce our ability to extend new loans while meeting capital and liquidity requirements. Our total deposits from customers amounted to RMB120,096.0 million, RMB117,469.7 million, RMB144,234.0 million and RMB156,635.1 million as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. However, there are various factors affecting the growth of our deposits from customers, some of which are beyond our control, such as economic and political conditions, the availability of alternative investment products and changes in customers' preference for savings. In particular, we may not be able to attract or retain adequate corporate deposits under a tightened credit environment, where higher financing costs and more difficulties in raising financing may result in increased corporate deposit withdrawals and corporations may be less willing or able to place deposits. In such cases, our liquidity, results of operations and financial conditions may be adversely affected.

As of March 31, 2020, 65.1% of our total deposits from customers were due within one year or were repayable on demand. As of the same date, 51.2% of our total loans to customers were due within one year. There is a mismatch between the maturities of our liabilities and our assets. Based on our experience, our short-term customer deposits will typically be rolled over upon maturity, and these deposits have represented a relatively stable source of our funding. However, due to the increased availability of wealth management products, other investment products and the financial disintermediation in recent years, certain customers may withdraw their deposits and invest in alternative products. We cannot assure you that we will always be able to maintain the growth in our deposits from customers at a pace sufficient to support our expanding business.

If we are unable to maintain the growth rates of our deposits from customers, or a substantial portion of our customers withdraw their demand deposits or do not roll over their time deposits upon maturity, our ability to meet capital liquidity requirements may be materially and adversely affected and, as a result, we may need to seek funding from alternative sources, which may not be available on reasonable terms or at all. Failure to secure funding from alternative sources on reasonable terms under such circumstances could materially and adversely affect our business, financial condition and results of operations.

We are subject to risks relating to SPV Investments and any adverse development in relation to underlying assets of our SPV Investments may materially and adversely affect our profitability and liquidity.

During the Track Record Period, our SPV Investments included investments in trust plans, asset management plans, wealth management products, and investment funds. As of December 31, 2017, 2018, 2019 and March 31, 2020, our SPV Investment amounted to RMB41,456.8 million, RMB34,427.7 million, RMB32,709.9 million and RMB31,627.3

million, respectively, accounting for 20.3%, 16.9%, 14.6% and 13.4%, respectively, of our total assets as of the same dates. For details of our SPV Investment, please see "Business — Our Principal Business Lines — Financial Markets — Investment Management — SPV Investment".

SPV Investment may involve certain risks. Although we have taken a variety of risk management measures, we cannot assure you that these measures will fully protect us from credit risks and liquidity risks in relation to our SPV Investment. For details of the risk management measures we adopted for our investments in these assets, please see "Risk Management — Credit Risk Management — Credit Risk Management for Our Financial Market Business — Credit Risk Management for Debt Securities Investment and SPV Investment". For example, we may not be able to receive repayment of the principal of, or the returns on these SPV Investment due to material and adverse changes in the financial condition of the relevant trust companies, securities companies or the ultimate borrowers. In addition, we may not be able to rely on the guarantees and collateral or realize the value of the collateral provided by the ultimate borrowers, as such guarantees and collateral are provided to the trust companies, asset management companies, securities companies and other financial institutions, instead of us. Furthermore, if the agreed-upon return rates of our SPV Investment cannot be achieved or the principal of our investments cannot be repaid, we primarily rely on the issuers to reduce our losses by exercising our rights under the relevant contracts and guarantees to recover losses from the issuers and the guarantee financial institutions (if any). We may not have direct recourse to the ultimate borrowers or their guarantors in the underlying transactions. Apart from that as SPV Investment are not traded on the interbank market or stock exchanges, and there is not yet an active trading market for them, their liquidity is limited. As a result, our ability to dispose of or realize the value of relevant investments before their maturity is limited.

All the above-mentioned factors may materially and adversely affect our business, financial condition and results of operations.

Furthermore, although PRC regulatory authorities do not currently prohibit commercial banks from participating in SPV Investment, we cannot assure you that future changes in regulatory policies will not restrict commercial banks in the PRC, including us, from conducting such transactions. In addition, adverse regulatory developments in relation to these types of investments could cause the value of our investment portfolio to decline and, as a result, may adversely affect our business, financial condition and results of operations.

We are subject to risks relating to investments in debt securities and adverse development in the market interest rate, market liquidity, market sentiments or other market and economic conditions may materially and adversely affect our profitability and liquidity.

A significant portion of our investment portfolio is composed of debt securities. As of December 31, 2017, 2018, 2019 and March 31, 2020, the gross amount of our total debt securities investment (exclusive of interest accrued) was RMB48,477.3 million, RMB51,048.7 million, RMB53,474.2 million and RMB60,842.3 million, respectively, representing 23.7%, 25.1%, 23.8% and 25.9% of our total assets as of the same dates, respectively. As of December

31, 2017, our debt securities were classified as financial investments measured at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, or investments classified as receivables under IAS 39. Since January 1, 2018, our debt securities have been classified as financial investments measured at amortized costs, financial investments measured at fair value through profit or loss, or financial investments measured at fair value through other comprehensive income under IFRS 9.

As of March 31, 2020, RMB35,400.3 million of our gross debt securities (exclusive of interest accrued) were classified as financial investments measured at amortized costs, representing 67.8% of our gross financial investments measured at amortized cost (exclusive of interest accrued) which amounted to RMB52,182.9 million and 15.0% of our total assets. As of the same date, RMB22,458.8 million of our gross debt securities (exclusive of interest accrued) were classified as financial investments measured at fair value through other comprehensive income, representing 9.5% of our total assets. As of the same date, RMB2,983.2 million of our debt securities were classified as financial investments measured at fair value through profit or loss, representing 1.3% of our total assets. After the interest accrued was made, the gross amount of our debt securities investment as of March 31, 2020 was RMB62,055.1 million, including (i) RMB36,092.8 million classified as financial investments measured at amortized costs, representing 67.9% of our gross financial investments measured at amortized costs (including interest accrued) which amounted to RMB53,127.4 million, (ii) RMB22,979.1 million classified as financial investments measured at fair value through other comprehensive income, and (iii) RMB2,983.2 million classified as financial investments measured at fair value through profit or loss. As of the same date, our net financial investments measured at amortized costs (including interest accrued) was RMB52,761.9 million. For more details, please see Note 19 to the Accountants' Report in Appendix I.

Our investment returns on debt securities are affected by a number of factors, many of which are beyond our control, including the market interest rate, creditworthiness of the overall market and our counterparties, market liquidity, asset values, as well as other market and economic conditions. Any material change in one or more of these factors could reduce the value of and the gains generated from our debt securities investment portfolio and could have a material adverse effect on our financial condition and results of operations.

The value of these debt securities may decrease significantly due to various factors that are beyond our control, including but not limited to (i) the issuer's failure to make repayment due to bankruptcy, financial difficulties or other reasons, which has been increasing due to the recent slowdown of China's economic growth; (ii) lack of liquidity; (iii) inflation; (iv) an increase in the current or expected market interest rate or other economic conditions; and (v) changes in relevant government policies. Our debt securities which are classified as financial investments measured at amortized costs, financial investments measured at fair value through other comprehensive income or financial investments measured at fair value through profit or loss under our current accounting standards are subject to impairment, which may affect the value of such debt securities. If the value of any debt securities we invest in significantly declines, our asset quality, financial condition and results of operations may be materially and adversely affected.

We are exposed to risks arising from loans granted to micro and small enterprises and should our micro and small enterprises customers default on their loan payment to us, our business, financial condition and results of operations may be materially and adversely affected.

As of December 31, 2017, 2018, 2019 and March 31, 2020, our loans to micro and small enterprises were RMB24,357.5 million, RMB24,171.1 million, RMB27,727.4 million and RMB29,827.6 million, respectively, representing 47.6%, 45.2%, 43.7% and 42.1%, respectively, of our total corporate loans. We believe that micro and small enterprises are generally more vulnerable to macroeconomic fluctuations or changes in the regulatory environment, as they may lack the financial, management or other resources necessary to withstand the adverse effects brought on by economic slowdowns. Any adverse changes in the economic, occurrence and/or development of natural disaster or epidemics or pandemic, including the recent outbreak of COVID-19, may affect the repayment ability of micro and small enterprises, which in turn may adversely affect our business, financial condition and results of operations. For more details, please also see "— Risks Relating to Our Business — The recent outbreak of the contagious COVID-19 may have an adverse effect on our business, financial condition and results of operations". In addition, information available on micro and small enterprises could be relatively inadequate for us to assess their credit risks. As of December 31, 2017, 2018, 2019 and March 31, 2020, NPL ratio of loans granted to micro and small enterprises was 0.78%, 3.49%, 1.66% and 1.46%, respectively. Our NPL ratio may increase due to the effects on our micro and small enterprise customers caused by economic slowdowns or unfavorable changes in the economy, which may materially and adversely affect our business, financial condition and results of operations.

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

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

In July 2014, the IASB issued the final version of IFRS 9 — Financial Instruments, which became effective during the year commencing on or after January 1, 2018, and the IASB allowed for early adoption. IFRS 9 replaced IAS 39 — Financial Instruments: Recognition and Measurement. In addition, in October 2017, the IASB introduced early repayment features and the concept of negative compensation (amendments to IFRS 9), which became effective during the year commencing on or after January 1, 2019, and the IASB allowed for early adoption.

Since January 1, 2018, we have adopted IFRS 9. Among other things, IFRS 9 adopts a different credit loss model compared with that used in IAS 39, where a loss event will no longer need to occur before an impairment allowance is recognized. In addition, the impairment model of IFRS 9 requires that our management determine whether there is a significant increase in credit risks in certain assets and, if so, to make provisions for a lifetime expected credit losses for those assets rather than setting out allowance in the amount of 12-month expected credit losses. We have adopted IFRS 16 on January 1, 2019, replacing IAS 17 that we adopted prior to January 1, 2019. IFRS 16 primarily affected our accounting as a lessee of the lease for certain office premise which is currently classified as operating leases. For details of the impact of IFRS 9 and IFRS 16, please see "Financial Information — Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies" and Note 2(1)(a) to the Appendix I attached to this prospectus. As a result, our results of operations during the year ended December 31, 2017 may not be indicative of our results of operations for the reporting years or periods beginning on or after January 1, 2018.

Our assessments of impairment allowance and determinations of impairment losses are based on our expected credit loss model under IFRS 9 and it is based on factors beyond our control and is therefore subject to inherent limitation and uncertainties.

Starting from January 1, 2018, under the requirements of IFRS 9, we categorize and manage our financial assets' credit risk into the following stages: (i) stage 1 refers to financial assets that have not experienced a significant increase in credit risk since origination and impairment are recognized on the basis of 12 months expected credit losses; (ii) stage 2 refers to financial assets that have experienced a significant increase in credit risk since origination and impairment are recognized on the basis of lifetime expected credit losses; (iii) stage 3 refers to financial assets that are in default and considered credit-impaired. We have developed a new expected credit loss model for impairment in accordance with IFRS 9 to measure the expected credit losses, taking into account various factors such as macroscopic index, macroeconomic indicators and macro-financial scenario analysis.

An impairment loss is recognized through profits or losses and is measured as the difference between the contractual cash flows that are due to the Group under the contract and the cash flows that the entity expects to receive. We assess impairment allowance on such financial assets in line with our applicable accounting policies and conduct periodic review and assessment. In addition, our management is required to determine the amount of the impairment losses or expected credit losses and the impairment allowance based on applicable accounting policies and on our management's assessments of relevant factors, such as operational and financial conditions of counterparties or underlying financing parties, the realizable value of collateral, and the ability of the guarantors to fulfil their obligations, as well as the PRC's economic, legal, and regulatory environment. Particularly, in line with IFRS 9 that we have adopted since January 1, 2018, in determining impairment losses, our management is required to adopt an "expected credit loss" model where a loss event will no longer need to occur before an impairment allowance is recognized. Under IFRS 9, our management is required to estimate the expected credit losses and the point at which there is a significant increase in credit risk based on available information that our management deems reasonable and applicable, all of which may involve significant judgment. Many of these factors are beyond our control and our estimation is subjective in nature, and therefore is subject to inherent restrictions and uncertainties. Please see "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies" for further details. There is no assurance that we can always make accurate assessment and expectation or the actual losses on such assets will not significantly increase in the future compared to our expected losses. We also cannot assure you that the impairment allowance will be sufficient to cover all losses we may actually incur in the future, upon occurrence of which, our business, prospects, financial condition and results of operations may be materially and adversely affected.

The effective operation of our business is highly dependent on the proper functioning and improvement of our information technology systems. Any security breaches and attacks against our systems and network and any potentially resulting breach or failure to otherwise protect personal, confidential and proprietary information, could damage our reputation and negatively impact our business, as well as materially and adversely affect our financial condition and results of operations.

Our business largely relies on the secure and efficient operation of our information technology systems, including our internal control, risk management, customer service and other data processing systems, each of which is critical to the sustainable development of our business and our ability to maintain competitiveness. Although most of our business operation are conducted through our headquarters, branches and sub-branches, and unlike other financial services provider and Online Banks where predominantly all of their products and services were conducted through internet by employing various digital and information technology means, we are still subject to a certain degree of information technology related risks. For details of the operation and backup mechanism of our information technology systems, please see "Business — Information Technology". However, our information technology systems may encounter events beyond our control, including network breakdowns, software bugs, computer virus attacks, intrusion attacks, catastrophic incidents or providers' failure to provide ongoing maintenance, which could result in a partial or complete failure of our information technology systems and disrupt our business continuity. For example, failure to prevent cyber-attacks or the occurrence of other data security incidents can affect the normal operation of our internet banking or mobile banking system, causing suspension of system services, data leakages and other adverse consequences, which may further lead to litigation risks. Although we have configured internet firewall access policies, intrusion detection defense, IDS intrusion detection system, anti-DDOS network attack mechanisms and other defensive measures, the possibility of being attacked still exists, and our information system is not completely protected from damage. For details of our relevant measures, please see "Risk Management — Information Technology Risk Management". The occurrence of any of the above-mentioned risk events or safety intrusion incidents could materially and adversely affect our business, financial condition and results of operations.

In addition, our cybersecurity measures may not detect, prevent or control all attempts to compromise our systems, including distributed denial-of-service attacks, viruses, trojan horses, malicious software, break-ins, phishing attacks, third-party manipulation, security breaches, employee misconduct or negligence or other attacks, risks, data leakage and similar disruptions that may jeopardize the security of data stored in and transmitted by our systems or that we otherwise maintain. Breaches of our cybersecurity measures could result in unauthorized access to our systems, misappropriation of information or data, deletion or modification of user information, or a denial-of-service or other interruption to our business operations. As techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us, there can be no assurance that we will be able to anticipate or implement adequate measures to protect against these attacks. In addition, we could be subject to an attack, breach or leakage, which we do not discover at the time or the consequences of which are not apparent until at a later point in time, that could result in material damages or remediation costs. If we are unable to avert these attacks and security breaches, we could be subject to significant legal and financial liabilities, our reputation would be harmed and we could sustain substantial revenue loss from lost transactions between and among consumers, businesses and their dissatisfaction. We may not have the resources or technical sophistication to anticipate or prevent rapidly-evolving cyber-attacks. Cyber-attacks may target us, consumers, businesses, or the communication infrastructure on which we depend. Cybersecurity breaches would not only harm our reputation and business, but also could materially decrease our revenues and net income.

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

Our impairment allowance on financial investments may not be sufficient to fully cover the actual losses on such investment we may incur in the future.

As of December 31, 2017, 2018, 2019 and March 31, 2020, our financial investments before impairment allowance amounted to RMB91,682.4 million, RMB92,775.5 million, RMB88,147.5 million and RMB93,804.3 million, representing 44.8%, 45.7%, 39.2% and 39.9% of our total assets as of the same dates, respectively. Prior to January 1, 2018, we did not classify any assets into financial investments at amortized cost under IAS 39. We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. According to IFRS 9, our financial investments classified as receivables were re-classified to financial investments measured at amortized cost. Please see "Financial Information — Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies" and Note 2(1)(a) to the Accountants' Report in Appendix I for details on differences between IAS 39 and IFRS 9. As of March 31, 2020, our financial investments at amortized cost before impairment allowance amounted to RMB52,182.9 million, representing 22.2% of our total assets as of the same date.

We assess impairment allowance on such investment in line with our applicable accounting policies and conduct periodic review and assessment in this respect. As of December 31, 2017, 2018, 2019 and March 31, 2020, our impairment allowance on financial investments amounted to RMB367.5 million, RMB169.9 million, RMB300.5 million and RMB365.5 million, respectively.

Our management determines the amount of the impairment losses or expected credit losses and the impairment allowance based on applicable accounting policies and on our management's assessments of relevant factors, such as operational and financial conditions of counterparties or underlying financing parties, the realizable value of collateral, and the ability of the guarantors to fulfil their obligations, as well as the PRC's economic, legal, and regulatory environment. There is no assurance that we can always make accurate assessment and expectation or the actual losses on such assets will not significantly increase in the future compared to our expected losses. We also cannot assure you that the impairment allowance will be sufficient to cover all losses we may actually incur in the future, upon occurrence of which, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Changes in the fair value of our financial investments may materially and adversely affect our operating results, financial condition and prospects.

As of March 31, 2020, we had financial investments measured at fair value through profit or loss of RMB17,747.1 million and financial investments measured at fair value through other comprehensive income of RMB23,874.3 million, before taking into account the allowance for impairment losses and the interest accrued. For details of our financial investments measured at fair value through profit or loss and financial investments measured at fair value through other comprehensive income, please see "Assets and Liabilities — Financial Investments". After the interest accrued was made, our financial investments at fair value through other comprehensive income amounted to RMB24,395.7 million as of March 31, 2020. All these financial investments are stated at fair value. We recognize fair value change in profit or loss that arises from re-measurement of investments classified as financial investments measured at fair value through profit or loss in the relevant accounting period. For financial investments measured at fair value through other comprehensive income, we recognize change in their fair value under other comprehensive income.

For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2020, we recognized RMB38.5 million of fair value losses, RMB48.1 million of fair value gains and RMB55.2 million of fair value gains and RMB21.3 million of fair value losses, respectively, from re-measurement of investments classified as financial investments measured at fair value through profit or loss. For the years ended December 31, 2017, 2018, 2019 and March 31, 2020, we also recorded net gains from disposal of financial investments at fair value through profit or loss, which amounted to RMB48.1 million, RMB132.2 million, RMB16.6 million and net loss of RMB4.5 million, respectively. In addition, we received investment income from financial investments at fair value through profit or loss for the years ended December 31, 2018, 2019 and for the three months ended March 31, 2020, which amounted to

RMB1,649.2 million, RMB1,216.8 million and RMB262.6 million, respectively, and was recognized as "net gains of financial investments at fair value through profit or loss" (a component of "net gains arising from investment securities").

Asset valuations in future periods, reflecting then prevailing market conditions, may result in negative changes in the fair values of these financial investments, which will result in a decline in our reported shareholders' equity, book value per share and net profit. In addition, the value ultimately realized by us on disposal of these investments may be lower than their current fair value. Any of these factors could lead to a decrease in our fair value, which may have a material adverse effect on our operating results, financial condition or prospects.

We cannot assure you that we can always obtain necessary or reliable data to apply relevant financial valuation models for determination of fair values due to factors beyond our control such as loss of data or insufficient market information. In such circumstances, we need to make assumptions, judgments and estimates in order to establish the fair value. Since assumptions are subjective in nature and inherently uncertain, the actual results may differ from our estimates. Any consequential impairments or write-downs could have a material adverse effect on our operating results, financial condition and prospects.

We determine fair value of level 3 financial instruments based on valuation techniques and various assumptions of unobservable inputs, which may fluctuate according to the changes in these unobservable inputs.

We determine fair value of level 3 financial instruments based on valuation techniques and various assumptions of unobservable inputs, which may fluctuate according to the changes in these unobservable inputs. The fair value of a financial instrument is the amount that would be received if an asset is sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In line with internal accounting policies, we establish a fair value hierarchy that prioritizes the inputs to valuation techniques being used to measure fair value of our financial instrument. We determine fair value of our financial assets and financial liabilities that are classified in levels 1 and 2 of the fair value hierarchy based on observable prices and inputs. In particular, as of December 31, 2017, 2018, 2019 and March 31, 2020, we did not have any financial instruments classified as level 1. Our level 2 financial assets amounted to RMB8,850.1 million, RMB24,889.1 million, RMB18,331.6 million and RMB28,320.3 million, respectively, representing approximately 100.0%, 59.9%, 56.6% and 67.2%, respectively, of our total financial assets measured at fair value as of the same dates. Instruments classified in level 3 of the fair value hierarchy are those which require one or more significant inputs that are not observable. As of December 31, 2017, 2018, 2019 and March 31, 2020, our level 3 financial assets amounted to nil, RMB16,640.5 million, RMB14,074.7 million and RMB13,822.4 million, respectively, representing approximately nil, 40.1%, 43.4% and 32.8%, respectively, of our total financial assets measured at fair value as of the same dates and approximately nil, 8.2%, 6.3% and 5.9%, respectively, of our total assets as of the same dates.

To determine fair value, we rely on judgment from our management taking into account various factors, including changes in unobservable inputs such as estimated future cash flows and discount rates. Many of these factors are beyond our control and may not be available on a consistent basis. In addition, the judgment and estimation is a subjective process and is subject to inherent limitations. We cannot assure you that such judgment and estimation are accurate, in which case the fair value of relevant financial instruments may be materially and adversely affected, resulting in material and adverse impact to our financial conditions and results of operations.

If the portion of our short-term loans remains high, the stability of our interest income may be adversely affected.

Under the General Rules of Loans of the PBoC, short-term loans are loans with maturity of one year or less. The portion of our short-term loans in our total outstanding loan balance remained relatively high. As of December 31, 2017, 2018, 2019 and March 31, 2020, short-term corporate loans as a percentage of our total corporate loans was 59.4%, 60.1% and 53.0% and 46.1%, respectively. During the Track Record Period, short-term loans constituted a large portion of our total corporate loans and had been our stable source of interest income. However, we cannot assure you that we will continue to have this stable source of interest income, in particular, when there is greater competition or funds of lower interest are available to customers. Our higher portion of short-term loans may have an adverse effect on the stability of our interest income.

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

We are exposed to risks associated with the PRC real estate market, especially from corporate loans to the real estate industry, residential mortgage loans and other loans secured by real estate. As of December 31, 2017, 2018, 2019 and March 31, 2020, our loans to corporate borrowers in the real estate industry represented 4.0%, 3.5%, 7.2% and 7.9%, respectively, of our total corporate loans. As of the same dates, our residential mortgage loans represented 52.9%, 51.7%, 44.7% and 43.9%, respectively, of our total personal loans. As of the same dates, loans secured by real estate amounted to 22.6%, 24.6%, 19.6% and 19.4% of our total loans amounts. Our maximum loan-to-value ratio, an indicator that compares the size of a loan to the value of the property securing the loan, for loans secured by real properties was no higher than 70%.

PRC Government has imposed, and may continue to impose, macroeconomic policies to regulate the real estate market including austerity measures or imposing value-added tax on the transfer of residential apartments. Example of austerity measures implemented in the last few years included the "Notice on Further Strengthening the Real Estate Market Regulation and Control Work" (《關於進一步加強房地產市場調控工作的通知》) (the "**Real Estate Market Regulation and Control Work**") issued by the General Office of the People's Government of Shandong Province in 2017. The Real Estate Market Regulation and Control Work and other similar measures may slow down the growth of our loans to, and negatively affect the financial condition, liquidity and repayment capabilities of, our customers in the real estate industry. These measures may also reduce the demand for residential mortgage loans in the PRC. In addition, any significant or continued decline in property prices in the PRC may have a material adverse effect on the asset quality of our corporate loans to customers in the real estate industry and personal residential mortgage loans. If the real estate market in the PRC experiences a recession or a prolonged period of downturn, the value of the real property as collateral for our loans may decrease to a level insufficient to cover the principal of and interest on the loans, which could therefore prevent us from recovering all or part of our principal and interest if the borrower defaults. We cannot guarantee that the measures we have taken to manage these risks will be effective or sufficient to protect us against the foregoing adverse effects.

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

Similar to other commercial banks in the PRC, we have extended loans to LGFVs during the Track Record Period. LGFVs are economic entities with independent legal capacity established by local governments or other departments and institutions which, through fiscal allocation or injection of assets such as land and equity, are responsible for financing government-sponsored projects. LGFVs typically use loan proceeds to make investments in infrastructure or industrial zone construction, renovation of old districts, or development of public interest projects. They typically repay us with operating cash flows generated from the relevant projects and the local government budget. As of December 31, 2017, 2018, 2019 and March 31, 2020, the balance of loans we granted to the LGFVs was RMB16.0 million, nil, RMB70.0 million and RMB70.0 million, respectively, representing 0.03%, nil, 0.11% and 0.10% of our loans to corporate banking customers, respectively, and 0.02%, nil, 0.08% and 0.07% of our total loans, respectively. As of March 31, 2020, none of our loans to LGFVs was classified as non-performing.

Pursuant to applicable PRC regulations, unless otherwise provided by the laws and the State Council, local governments and their departments or organizations and institutions funded primarily by fiscal budget are not permitted to, directly or indirectly, provide guarantees for the financing activities of LGFVs by using either fiscal income or state-owned assets or in other ways. In addition, many projects sponsored by LGFVs are carried out primarily for public interest purposes and are not necessarily commercially viable. Therefore, the operating cash flows generated from such projects may not be sufficient to cover the principal of and interest on the relevant loans. As a result, the ability of a LGFV to repay its loans may depend, to a significant extent, on its ability to receive financing support from the government, which may not always be available due to the government's liquidity, budgeting priorities and other considerations.

A macroeconomic slowdown, unfavorable changes in national policies, the deterioration in the financial condition of local governments, significant decline in property prices or other external factors may undermine the repayment capabilities of relevant LGFVs, which may, in turn, materially and adversely affect our asset quality, financial condition and results of operations. Since 2010, the State Council, CBIRC and PBoC, along with several other PRC regulatory authorities, have promulgated a series of notices, guidelines and other regulatory measures that instruct PRC banks and other financial institutions to strengthen their risk management measures regarding loans to LGFVs. For further details, please see "Supervision and Regulation — Regulation on Principal Commercial Banking Activities". For details on how we manage risks related to LGFVs, please see "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Portfolio Management — Credit Risk Management for Loans to LGFVs". We cannot assure you that these measures are sufficient to protect us against losses in connection with default by LGFV borrowers, which may materially and adversely affect our asset quality, financial condition and results of operations.

We cannot assure you that the historical decreasing trend of our effective tax rate will continue in the future.

During the Track Record Period, our effective tax rate was 18.1%, 11.5%, 16.0%, 15.8% and 17.1% for the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, respectively. For details of our effective tax rates during the Track Record Period, please see "Financial Information — Results of Operations for the Years Ended December 31, 2017, 2018 and 2019" and "Financial Information — Results of Operations for the Three Months Ended March 31, 2019 and 2020".

From time to time, we make investment decisions to adjust investment portfolios after taking into account a broad range of factors, including but not limited to our risk appetite, capital consumption level and expected yields of relevant products, as well as economic environment and regulatory development. Interest income from some debt securities and funds being non-taxable is only one of many factors that we consider. In the future, we will still consider to invest in debt securities issued by PRC Government and funds based on the result of our analysis. However, we cannot assure you that the scale of such non-taxable investment will increase or that we could enjoy a lower effective tax rate going forward. If we are unable to maintain our effective tax rate on the same or lower level, our results of operations could be adversely affected.

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

As of March 31, 2020, our deferred tax assets amounted to RMB1,068.2 million, representing approximately 0.5% of our total assets. We periodically assess the probability of the realization of deferred tax assets, using accounting judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. In particular, these deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized. However, we cannot assure you that our expectation of future earnings will materialize, due to factors beyond our control such as general economic conditions or negative development of regulatory environment, in which case we may not be able to recover our deferred tax assets which in turn could have a material adverse effect on our results of operations.

We are subject to risks relating to wealth management products we offer and any adverse development in relation to our underlying assets invested from the proceeds of our wealth management product would adversely and materially affect our business, financial and result of operation.

For the years ended December 31, 2017, 2018, 2019 and the three months ended March 31, 2020, the total amount of wealth management products issued by us was RMB36,403.7 million, RMB60,177.5 million and RMB72,653.9 million and RMB19,618.3 million, respectively. We invested the proceeds from our wealth management products mainly in debt securities, which accounted for 97.2%, 89.0%, 93.6% and 95.1% of our wealth management products as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. For details of our risks associated with investment in debt securities, please see "— Risks Relating to Our Business — We are subject to risks relating to investments in debt securities and adverse development in the market interest rate, market liquidity, market sentiments or other market and economic conditions may materially and adversely affect our profitability and liquidity". Our ability to pay the principal and investment returns under the wealth management agreements relies heavily on the performance of our financial investments made using proceeds raised from such wealth management products.

As of March 31, 2020, all of the wealth management products we issued were non-principal protected. As all of the wealth management products we issued were non-principal protected, we are not liable for losses suffered by the investors in these products. However, to the extent that investors suffer losses on these wealth management products, our reputation may be damaged, and we may also suffer a loss of business or decrease in deposits. Furthermore, we may eventually bear losses for non-principal protected products if the investors bring lawsuits against us and the court rules that we are liable for inadequate risk disclosure or any other reason.

In addition, the tenor of some of the wealth management products we issued is shorter than those of their underlying assets which exposes us to liquidity risk. We cannot assure you that the wealth management products we issued will not encounter any liquidity risk incidents arising from such mismatch. Furthermore, the PRC regulatory authorities have released regulations to limit the size of commercial banks' SPV Investment with funds raised from wealth management products. For more details, please see "Supervision and Regulation — Regulation on Principal Commercial Banking Activities — Wealth Management Business".

If the PRC regulatory authorities further restrict the wealth management business of PRC commercial banks, our liquidity and profitability could be adversely affected. We cannot assure you that we will be able to complete these transactions on commercially acceptable terms, in a timely manner, or at all. As a result, our business, financial condition and results of operations could be materially and adversely affected.

We face risks and uncertainties associated with the PRC regulations governing the wealth management business of financial institutions.

In recent years, PRC Government has promulgated various rules and regulations to mitigate systemic risks in the financial industry. In particular, in order to, among other things, enhance risk management measures relating to leverage in financial markets and thereby mitigate liquidity and market risks and regulatory arbitrage, the PBoC, CBIRC, CSRC and SAFE jointly issued the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (關於規範金融機構資產管理業務的指導意見) (the "**April 27 Guideline**") on April 27, 2018. This guideline prohibits financial institutions, including banks, from providing investors with guarantees, in any form, for principal and investment returns in relation to wealth management products ("**Non-Guarantee Requirements**"). In addition, the CBIRC issued the Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks (商業銀行理財業務監督管理辦法) on September 26, 2018 (the "**September 26 Guidelines**"), which, among other things, strengthen the supervision and administration of wealth management products issued by commercial banks. For details on the content of the April 27 Guideline and the September 26 Guidelines, please see "Supervision and Regulation — Regulation on Principal Commercial Banking Activities — Securities and Asset Management Businesses". As of result of these measures, many Large Commercial Banks, Nationwide Joint-Stock Commercial Banks and city commercial banks have accelerated the setup of wealth management subsidiary companies to drive the transformation of their wealth management business.

In line with restrictions set out in the April 27 Guideline (particularly the Non-Guarantee Requirements) and its subsequent interpretations as well as the September 26 Guidelines, we strictly manage issuance of principal protected wealth management products. As of the Latest Practicable Date, we no longer issued any outstanding principal protected wealth management products. In particular, customers accustomed to principal-protected wealth management products may seek other types of financial products with features that we cannot or are not licensed to offer, thereby hindering our ability to attract or retain clients.

In addition, to ensure compliance with the April 27 Guideline, we may need to incur additional administrative or other operating expenses to bring our operation and management measures into compliance, which may materially and negatively impact our financial conditions and results of operations. We cannot assure you that PRC Government will not publish implementation rules with more stringent standards in interpreting the April 27 Guideline and the September 26 Guidelines, or issue new laws and rules to replace the April 27 Guideline and the September 26 Guidelines setting out limitations that are costly for us to follow. Such additional rules and interpretations may materially and adversely affect our financial conditions and results of operations.

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

Similar to most PRC commercial banks, our results of operations depend, to a large extent, on our net interest income, which accounted for 93.3%, 49.6%, 66.8% and 63.6% of our operating income for the years ended December 31, 2017, 2018, 2019 and the three months ended March 31, 2020, respectively.

Our net interest income is sensitive to adjustments in the benchmark interest rates set by PBoC. In recent years, PBoC has adjusted the benchmark interest rates several times. Please see "Supervision and Regulation — Pricing of Products and Services — Interest Rates for Loans and Deposits". Adjustments by PBoC to the benchmark interest rates on loans or deposits or changes in market interest rates may affect our financial condition and results of operations in different ways. For example, changes in the PBoC benchmark interest rates could affect the average yield of our interest-earning assets to a different extent than the average cost of our interest-bearing liabilities and, therefore, may narrow our net interest margin. Such a change would lead to a decrease in our net interest income, and may materially and adversely affect our results of operations and financial condition. PRC Government also implemented other monetary policies in recent years, including adjusting the PBoC statutory deposit reserve ratios from time to time. These monetary policies may have a significant impact on the liquidity and funding costs of PRC city commercial banks and borrowers' demand for bank financing, which in turn may affect our business, results of operations and financial condition.

Interest rates in China have been gradually liberalized in recent years. Since June 8, 2012, PBoC has allowed financial institutions to increase the Renminbi deposit interest rate to 110% of the PBoC benchmark interest rate. On July 20, 2013, PBoC abolished the minimum interest rate for loans excluding residential mortgage loans, which was 70% of the benchmark interest rate, and allowed financial institutions to set lending rates based on commercial considerations. Furthermore, on November 22, 2014, PBoC permitted financial institutions to raise the Renminbi deposit interest rate up to 120% of the PBoC benchmark interest rate. The Renminbi deposit interest rate was raised again in March 1, 2015 and May 11, 2015 up to 130% and 150% of the PBoC benchmark interest rate, respectively. On August 26, 2015, the PBoC maintained the interest rate cap of Renminbi demand deposits and time deposits with maturity in less than one year. Then on October 24, 2015, PBoC announced that it would no longer set up a floating ceiling deposit interest rate for commercial banks, signifying the further liberalization of controls on interest rates. Furthermore, in August 2019, the PBoC announced to reform the mechanism used to establish the loan prime rate ("**LPR**"). The new LPR quotations will be based on rates of open market operations and published on a monthly basis. According to the PBoC, commercial banks must set interest rates on new loans by mainly referring to the LPR and use LPR as the benchmark for setting floating loan interest rates. On December 28, 2019, PBoC issued another announcement requiring financial institutions from March 1, 2020, to engage in negotiations with existing floating-rate loan clients to change the pricing benchmark, and shift from the original contractually stipulated pricing method to the use of LPR as the pricing benchmark and this transition process should be in principle be completed by

August 31, 2020. For more information on the LPR reform, please see "Supervision and Regulation — Pricing of Products and Services — Interest Rates for Loans and Deposits". Interest rate liberalization may intensify competition in the PRC banking industry, as PRC commercial banks may seek to make loans and take deposits with more attractive interest rates, which could narrow the net interest margin of PRC commercial banks, thereby materially and adversely affecting our results of operations. We cannot assure you that we will be able to promptly diversify our businesses, adjust the mix of our assets and liabilities and change our pricing to effectively respond to further liberalization of interest rates.

As a crucial step for liberalizing interest rates in the PRC, the Deposit Insurance Regulation was published on February 17, 2015 and came into effect on May 1, 2015. The Deposit Insurance Regulation requires that each depositor of a bankrupt bank could be reimbursed an amount up to RMB500,000. Banks are required to pay premiums for the deposit insurance program, which will increase our operating costs and may therefore adversely affect our financial condition and results of operations.

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

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

As of December 31, 2017, 2018, 2019 and March 31, 2020, the balances of our financial assets sold under repurchase agreements, deposits from banks and other financial institutions and placements from banks and other financial institutions accounted for 16.2%, 12.4%, 12.2% and 10.4% of our total liabilities, respectively. According to relevant PRC laws and regulations, including the Notice on Regulating Interbank Businesses of Financial Institutions (關於規範金融機構同業業務的通知) jointly issued by the PBoC, CBRC, CSRC, CIRC and SAFE on April 24, 2014 ("**Interbank Lending Notice**"), the net balance of interbank lending of a commercial bank to a single incorporated financial institution (excluding interbank deposits for settlement purposes), after deducting assets with zero risk weight, shall not exceed 50% of its tier-one capital. The balance of interbank borrowing of a commercial bank shall not exceed one-third of its total liabilities. Subject to the aforementioned laws and regulations and other applicable requirements, we may not be able to acquire sufficient short-term funds from the interbank market at all times, and regulatory authorities may impose further restrictions on interbank business and interbank borrowing. As a result, our funding costs may increase, which may materially and adversely affect our liquidity and profitability.

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

We have established a risk management framework and an internal control system to protect us from various risk exposure. For details, please see "Risk Management". However, as these systems, policies and procedures require constant and ongoing testing and maintenance, there is no assurance that these current systems are adequate to protect us from all types of risks. In addition, our risk management capabilities are limited by the information, tools and technologies available to us.

Although we have taken various measures to improve and upgrade our overall risk management system, policies and procedures, due to the inherent limitations of our systems, we may not adequately or effectively identify or mitigate our risk exposure in all market environments or against all types of risks, including, without limitation, risks arising from the failure to dispose of non-performing assets in a timely manner and in full compliance with the regulatory requirements. As a result, our risk management methodologies and techniques may not be effective, and we may not be able to manage and control our risks in a timely and appropriate manner, and thereby our asset quality, business, financial condition and results of operations may be materially and adversely affected.

We are subject to risks associated with off-balance sheet commitments and we are required to provide funds when our customers are unable to perform their obligations under the relevant commitment.

We provide certain off-balance sheet commitments to our customers in the ordinary course of business, such as bank acceptances, letters of credit and letters of guarantees. Such arrangements are not reflected on our balance sheet, but they constitute contingent assets or contingent liabilities. As of March 31, 2020, our off-balance sheet credit commitments totaled RMB30,056.0 million. For more details, please see "Financial Information — Off-balance Sheet Commitments". We are subject to credit risks associated with certain of these off-balance sheet commitments and are required to provide funds when our customers are unable to perform their obligations. If we are unable to recover payment from our customers, our financial condition and results of operations may be materially and adversely affected.

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

We are subject to capital adequacy regulations set by the CBIRC. Please see "Supervision and Regulation — Supervision over Capital Adequacy". Pursuant to the requirements of PRC banking regulatory authorities, our capital adequacy ratios for each tier shall remain no lower than the minimum capital adequacy requirements under the Capital Administrative Measures (Provisional) during and after the transitional implementation period. The CBIRC may further increase the minimum capital adequacy requirements or change the methodology for calculating regulatory capital or capital adequacy ratios, or we may otherwise be subject to new capital adequacy requirements. Such changes may materially and adversely affect our financial condition and results of operations.

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

We had net cash outflows from operating activities for the year ended December 31, 2017 and 2018. If we have net cash outflows from operating activities in the future, our liquidity and financial conditions may be materially and adversely affected.

We had net cash outflows from operating activities of RMB125.4 million and RMB11,923.3 million, respectively, in 2017 and 2018. The net cash outflow from operating activities primarily resulted from the increases in our loans and advances to customers during the Track Record Period, which was in line with our business expansion. For the year ended December 31, 2019 and the three months ended March 31, 2019 and 2020, our net cash inflows from operating activities were RMB10,716.5 million, RMB1,825.4 million and RMB3,469.9 million, respectively. The net cash inflow from operating activities was primarily resulted from the increases in our deposits from customers for the year ended December 31, 2019 and the three months ended March 31, 2019 and 2020. We cannot assure you that we will be able to generate positive cash flows from operating activities in the future. Our liquidity and financial condition may be materially and adversely affected by negative net cash flows, and we cannot assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur financing costs and we cannot guarantee that we will be able to obtain the financing on terms favorable to us, or at all.

There are legal defects regarding some of our owned and leased properties.

As of the Latest Practicable Date, we owned or occupied 41 properties with an aggregate GFA of approximately 65,849.7 square meters, which we mainly used as outlets and office premises. We had obtained building ownership certificates and land use certificates, or the property ownership certificates through grant, for 39 properties with an aggregate GFA of approximately 65,333.4 square meters. For a property with an aggregate GFA of approximately 216.3 square meters, we had obtained the building ownership certificate, but had not obtained the land use certificate and another one property with an aggregate GFA of approximately 300.0 square meters, we had not yet obtained the land use certificate or the building ownership certificate. For details on our owned properties, please see "Business — Properties". We may not be able to obtain all these title certificates. We cannot assure you that our ownership rights will not be adversely affected in respect of properties for which we are unable to obtain the relevant title certificates. If we were forced to relocate any of the operations we conduct on the affected properties, we may incur additional costs as a result of such relocation.

In addition, as of the Latest Practicable Date, we leased 120 properties with an aggregate GFA of approximately 125,466.0 square meters, which we mainly used as outlets and office premises. We cannot assure you that we will be able to renew such leases on terms acceptable to us upon their expiration. If any of our leases is terminated as a result of challenges by third parties or if we fail to renew them upon expiration, we may be forced to relocate affected branches and sub-branches and incur additional costs associated therewith, and our business, financial condition and results of operations may be adversely affected. For these 120 leased properties, we had registered 45 leasing agreements with the relevant housing administrative authorities. According to the Administrative Measures for Commercial Housing Leases (《商品房屋租賃管理辦法》), failure to complete the relevant lease registration may subject the parties to the lease agreement a fine between RMB1,000 to RMB10,000. As a result, if we fail to complete or timely complete such lease registration upon the housing authorities' request, we may face a total maximum fines up to RMB0.8 million assuming a maximum fine of RMB10,000 was imposed on each unregistered lease agreement. For details of our properties including leased properties, please see "Business — Properties".

We disposed of certain non-performing assets during the course of our business and should we become unable to dispose of or transfer such assets in the future, our liquidity, financial condition and results of operations may be affected.

During the course of our business, we, in line with our risk management policies, disposed of certain non-performing assets at various discount rates or without discount, primarily to various asset management companies in the PRC. These asset management companies are Independent Third Parties. We may choose to continue disposing of loans and other assets from time to time in accordance with our liquidity management and risk management policies when we deem appropriate. Our current results of operations and financial condition would be different had these disposals not taken place. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2020, the principal of non-performing assets we disposed of (through write-off, transfer, debt-to-equity swap and debt-to-trust beneficiary rights swap, etc.) amounted to RMB711.7 million, RMB2,350.1 million, RMB3,361.8 million and RMB557.7 million, respectively. For details of the non-performing assets we have disposed during the Track Record Period, please see "Assets and Liabilities – Assets – Asset Quality of Our Loan Portfolio – Changes in Asset Quality of Our Loans". The non-performing assets we disposed of during the Track Record Period were all non-performing loans. Our NPL amount and NPL ratio during the relevant periods would be higher had such disposals failed to take place. In the future, we may not be able to dispose of our assets or loans on a similar scale or on similar terms.

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

We benefit from favorable policies adopted by the national and local governments to promote the economic development of Shandong Province and Weihai City. However, we cannot guarantee that PRC Government will maintain its favorable policies in promoting the development of Shandong Province and Weihai City. Any discontinuation or unfavorable change in such policies may adversely affect our business, financial condition and results of operations. In addition, any new policies issued or to be issued by the national or local government on curbing the spending limit of the local government on its local economic development will adversely affect our business, financial condition and results of operations.

We historically received certain non-recurring income, the unavailability or reduction of which could adversely affect our business, financial condition and results of operations.

During the Track Record Period, we received certain non-recurring income which amounted to RMB21.8 million, RMB19.2 million, RMB0.4 million, RMB3.3 million and RMB5.2 million, respectively, for the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, representing 0.6%, 0.5%, 0.0%, 0.3% and 0.4% of our total operating income during the same periods. The non-recurring income we received mainly included government grants, rental income, and gains from disposal of collaterals.

The availability of non-recurring income is dependent on a variety of factors. For example, our eligibility for government grants depends on relevant government policies, the availability of funding at different granting authorities, and the granting authorities' assessments on us, and so on. Some of these factors are beyond our control. We cannot assure you that we will continue to receive non-recurring income on the same or similar scale as the relevant factors may change over time. Loss or reduction in non-recurring income could have an adverse effect on our business, financial condition and results of operations.

We may not be able to successfully expand our portfolio of products and services. In particular, we may not be able to promote fee- and commission-based businesses and other non-interest income businesses as intended.

We have been committed to expanding our portfolio of products and services and intend to continue doing so in the future, to capture ever changing market demand and cope with different challenges. The sustainable development of our business depends on, in part, our ability to expand our product and service portfolio to capture customer demand and evolving industry trends. However, the success of this strategy is subject to various factors beyond our control, including general economic conditions, regulatory restrictions and market competition.

In particular, we consider fee- and commission-based businesses and other non-interest income business, among other things, key drivers to properly manage challenges and risks associated with interest rate liberalization. As a result of the bank card-related fees we waived or reduced in order to attract more quality customers, implement the national inclusive financial policy and practice the concept of local banks serving the citizens, our revenue from our fee- and commission-based businesses represented only a small portion of our total operating income during the Track Record Period. Our net fee and commission income amounted to RMB236.7 million, RMB73.2 million, RMB271.7 million, RMB46.2 million and RMB123.7 million for the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, respectively, representing 6.1%, 1.9%, 5.5%, 4.0% and 8.4% of our operating income for the same periods, respectively.

The specific waived or reduced fees included the cost of opening certain IC cards, certain bank cards' annual fees, certain ATM cross-bank withdrawal fees, short message service (SMS) fees and online banking and mobile banking transfer handling fees. We cannot assure you that we will record increased net fee and commission income instead of fee and commission losses in the future. In particular, in recent years, many non-bank enterprises or newly established banks with strong internet technology backgrounds have started offering internet finance services crucial to the banking value chain, including core areas that are key sources of banks' revenues, such as payment, wealth management, consumer finance and checking and savings services. Please see "— Risks Relating to the PRC Banking Industry — The competitive environment in the banking industry is continually evolving in line with advancements in information technology, and as a result traditional banking institutions face intensified challenges with respect to internet finance" for more details.

Furthermore, the regulatory regimes for certain products and services that generate fee and commission income continue to evolve, particularly those relating to financial markets business. Please see "— Risks Relating to Our Business — We face risks and uncertainties associated with the PRC regulations governing the wealth management business of financial institutions". We cannot assure you that our business will not be materially and adversely affected by the continued development of the relevant regulations. Furthermore, if we are unable to obtain relevant regulatory approvals, or comply with relevant banking regulations in relation to the sales and marketing of our new financial products and services, we may be subject to legal proceedings or regulatory sanctions, which in turn could lead to significant financial losses and reputational damages to us. In addition, for products where our income depends on the underlying financing party's capacity to make timely repayment, we are also subject to inherent risks associated with financial performance or business operations of relevant issuers or owners of underlying assets, which are affected by many factors beyond our control, including general economic conditions and proper compliance with laws and regulations by relevant third parties. We may also be subject to client complaints, negative news coverage and possible litigations which could have an adverse effect on our reputation.

The occurrence of any above-mentioned events may materially and adversely affect our business, financial condition and results of operations.

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

We are subject to the regulatory requirements and guidelines set forth by various PRC regulatory authorities, such as the CBIRC, PBoC, SAFE, CSRC, MOF, NAO, SAMR and SAT. These laws, regulations, guidelines and regulatory requirements include approvals for banking products and services, market entry, opening of new branches or sub-branches, taxation and accounting policy, risk management, internal control and pricing. These regulatory authorities supervise and spot check banks and have the authority to impose penalties or remediation requirements based on their findings. We can not assure you that we can always meet these regulatory requirements. Failure to meet relevant regulatory requirements may be viewed by the regulatory authorities as a violation of prudent operation rules, which, depending on the severity of the non-compliance, could lead to a number of regulatory actions, including demand for timely rectification, fine, suspension of certain businesses, revocation of business license, restrictions on dividend distributions and asset transfers or disciplinary actions against the directors, officers or persons directly liable for such non-compliance. We cannot assure you that we will be able to meet all applicable regulatory requirements and guidelines, or comply with all applicable regulations at all times, or that we will not be subject to sanctions, fines or other penalties in the future as the result of non-compliance. Any failure to comply with applicable requirements, guidelines, or regulations could have a material adverse effect on our business, financial condition and results of operations, and damage our reputation and our ability to grow our business.

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

Our business reputation is crucial to our success. PRC's banking industry continues to be covered extensively and critically by various news media. In recent years, incidents of fraud and issues in relation to non-performing loans, loan quality, capital adequacy, solvency, internal controls, and risk management have been extensively reported by the media. Any such negative media coverage, accurate or not, may have a material adverse effect on our reputation and will consequently undermine our customers' confidence in us. As a result, our business, financial condition, results of operations, prospects and the value of your investment may be materially and adversely affected.

We will need government approvals to expand our business beyond home regions and we cannot guarantee that we will obtain such approvals successfully. Even if we obtain the approval to set up branches and sub-branches beyond home regions, we may be exposed to risks arising from expanding the geographic coverage of ours products, services and business.

We will need to submit applications to regulatory authorities if we plan to establish branches and sub-branches in areas outside Shandong Province. In addition, the CBIRC restricts city commercial banks from establishing branches and sub-branches outside of their home regions without specific approval. To obtain such approval, we need to satisfy various requirements imposed by the CBIRC. Even if we successfully obtain the approval to set up branches and sub-branches outside of Shandong Province, we may not possess the knowledge of the local business environment, risk management tools and qualified personnel to successfully compete with the banks and other financial institutions existing in those areas or regions. The rate of our growth and the expansion of our business may be affected if we are unable to or unsuccessful in expanding our operation geographically, which, in turn, may materially and adversely affect our business, financial condition and results of operations.

We have entered into outsourcing agreements for information technology services and any difficulties experienced in these arrangements could result in additional expense, loss of customers and income or an interruption of our services.

We obtained certain information technology services by entering into contracts with third-party technology and service providers. In the event that these service providers either fail to provide support service as usual, terminate our contracts or refuse to renew our contracts, our reputation may be damaged. If such an event occurs, although we may pursue new third-party technology and service relationships, it may still disrupt our normal operations, increase the costs of these technology services and divert management's time and energy. If we are unable to identify a suitable new service provider on a timely basis, or at all, we could be forced to temporarily or permanently discontinue certain services, which could materially and adversely affect our business, prospects, financial condition and results of operations.

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

We were involved in legal and other disputes arising from our ordinary course of business from time to time for a variety of reasons which are generally related to loan collection purposes or other claims arising out of our ordinary course of business. In general, litigation is inherently uncertain and difficult to predict and we cannot guarantee the outcome of any litigation proceedings in which we are involved or will be involved will be favorable to us, or will subject us to appeal. Furthermore, we may encounter disputes in relation to misappropriation or unauthorized use of our business names or service brand names, or disputes in relation to misappropriation, unauthorized use or registration of our trademarks.

In addition, we also cannot guarantee that any existing, potential or future dispute, will not cause a material adverse effect on us including damages to our reputation, loss of revenue, additional operational costs or a diversion of our resources and management's attention from our business operations, negative publicity, strict scrutiny and/or intervention from regulatory authorities, regulation or loss of existing or potential client business which in turn could have a material adverse effect on our business, financial condition and results of operations.

We are subject to money laundering and governmental economic sanctions laws. Our failure to detect illegal or improper activities in relevant fields on a timely basis, or at all, could expose us to reputational damages and other legal or regulatory liability risks.

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

In addition, economic sanctions laws imposed by the United States, European Union ("**E.U.**"), and other jurisdictions may expose us to potential compliance risks. Sanctions laws prohibit business in or with certain countries or governments, and with certain persons or entities that have been sanctioned by the United States, the E.U. or other governments and international or regional organizations, such as the United Nations Security Council. Although we solely operate within the PRC, we from time to time have engaged or may engage in certain international business that could expose us to international sanction risks. While we do not believe that we are or have been in violation of any applicable sanctions laws or engaged in sanctionable activities, it is possible that governmental authorities may in the future impose sanctions on us, particularly in the event that we fail to detect and, as appropriate, remediate such violations, and there can be no assurance that we can always be in compliance with all such sanctions laws in the future. We also cannot predict with certainty the interpretation or implementation of any sanctions laws or policies or their future changes. Any alleged violations of sanctions laws or engagement in sanctionable activities could adversely affect our reputation, business, results of operations and financial condition.

Our risk management policies and measures may not be effective.

We face a wide range of risks in our core business activities, including credit risk and liquidity risk, conduct risk and interest rate risk. Please see “Risk Management”. Effective risk management requires, among other things, robust policies, processes and controls for the accurate identification and control of a large number of transactions and events, and our risk management policies, processes and controls may not be adequate. We have a range of tools designed to identify, assess and manage the various risks we face, some of which are based on historical market behavior. These methods may be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historical experience. Other methods we utilize for risk management are based on the evaluation of markets, customers or other information that is publicly known or otherwise available to us. This information may not always be correct, updated or correctly evaluated. It is difficult to predict changes in economic or market conditions and to anticipate the effects that these changes could have on our financial performance and business operations, particularly in periods of unusual or extreme market conditions. If our risk management policies, processes and controls are ineffective for any reason, this could have a material adverse effect on our business, financial condition and results of operations.

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

Our ability to maintain growth and meet future demands is dependent upon the continued service of our senior management and key personnel such as those with vast experience in the banking industry or in his/her line of work, in particular, our Directors. For biography details of our Directors, please see “Directors, Supervisors and Senior Management — Board of Directors”. Our future success depends substantially upon our key personnel’s experience in the banking industry and our business operations as well as their sales and marketing skills. The departure of any member of our key personnel may have a material adverse effect on our business and results of operations. In addition, we may face increasingly fierce competition in recruiting and retaining qualified staff, including senior management, since other banks are competing for the same pool of qualified candidates and our compensation packages may not be as competitive as those of our competitors. We cannot assure you that we will be able to recruit or retain qualified employee, or that competition in recruitment will not lead to increases in our employment costs. If we fail to recruit or retain sufficient qualified staff, our business, financial condition and results of operations may be materially and adversely affected.

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

We are exposed to fraud or other misconduct committed by our employees, customers or other third parties, which could subject us to financial losses, third party claims, regulatory actions or reputational damage. We cannot assure you that our internal control policies and procedures will be sufficient to prevent, detect or deter all incidents of fraud and misconduct involving our employees or third parties.

Furthermore, the illegal activities, misconduct or improper behavior of our customers or other third parties, whether or not they are related to us, may damage our reputation or cause us to incur economic losses. As we have no control over these and other third parties, we cannot assure you that we can always effectively prevent or mitigate the negative impact their misconduct may cause on our reputation, business, financial condition or results of operations.

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

As of the Latest Practicable Date, we had not been able to confirm the identities of 17 of our Shareholders because we are unable to contact them or for other reasons. The Shares held by such Shareholders represented an aggregate of approximately 0.03% of our total issued share capital as of the Latest Practicable Date.

There is no assurance that we will successfully contact and accurately record all holders of our Shares or all persons who are entitled to our Shares. We have entrusted the Shares held by all of our existing Shareholders, including such unidentifiable Shareholders, to Qilu Equity Exchange Center Co., Ltd (“齊魯股權交易中心有限公司”) in Shandong Province, and our PRC Legal Advisors is of the view that the existence of the aforementioned unidentifiable Shareholders is not expected to have material adverse effect on our share capital structure, corporate governance and business operations. However, there is no assurance that there will not be any disputes regarding equity interests raised by Shareholders, such as disputes over the dilution of their shares, including H Share. Any of such disputes or objections may result in negative publicity or reputational damage to us.

Failure to ensure and protect the personal data of our customers or to comply with data privacy and protection laws and regulations could harm our reputation and deter customers from using our services, which could materially affect our results of operations.

During the ordinary course of our business, we collect and store certain private information about our customers, such as their names, addresses and contact information, as well as their social and financial information, such as employment, proof of income and credit ratings. For more details, please see “Business — Personal Data and Privacy Protection”. Although we strive to implement our data protection policy and procedures in a strict and consistent manner, unauthorized access to or leakage of personal data may still occur, which could materially and adversely affect our reputation, financial condition and results of operations.

PRC data privacy laws restrict our collection, storage, use, processing, disclosure and transfer of non-public personal information provided to us by our customers. The PBoC’s Notice on the Further Protection of Personal Financial Information by Financial Institutions issued on March 27, 2012 (Yin Fa [2012] No. 80) (中國人民銀行關於金融機構進一步做好客戶個人金融信息保護工作的通知) requires that banking financial institutions strictly follow the relevant laws and regulations when collecting, maintaining and using personal financial information, or when providing the same to external parties. Meanwhile, banking institutions shall not sell personal financial information of customers to any entity or individual, or provide such information to any external party against the relevant laws and regulations. They must adopt effective measures to ensure the safety of customers' personal financial information and prevent the unauthorized disclosure and misuse of the same. The State Council General Office's Guiding Opinions on Strengthening the Protection of Financial Consumers' Rights and Interests (《國務院辦公廳關於加強金融消費者權益保護工作的指導意見》), effective since November 2015, explicitly states that financial institutions must respect and protect consumers' basic rights, including their right to information safety. Regulatory authorities including the CBIRC and PBoC have also placed a growing emphasis on the protection of personal data. In December 2016, for instance, the PBoC released its Implementation Measures for Protecting Financial Consumers' Rights and Interests (《中國人民銀行金融消費者權益保護實施辦法》), which clearly state that private information obtained during the course of financial services must be kept confidential, and financial institutions shall establish and improve the internal control measures necessary for protecting their customers' personal information.

Furthermore, as the internet banking business continues to evolve, it is likely that the PRC regulatory authorities, including the CBIRC and PBoC, may tighten their regulation on the protection of consumers' online personal data. The existing and any future laws and regulations can be costly to comply with and can delay or impede the development of our new products, increase our operating costs, call for significant management time and attention, and subject us to claims for remedies, litigations, fines, or demands that we modify or cease existing business practices. In addition, any public concerns about our practices with regard to the collection, use or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation, which may in turn cause material and adverse effects on our business, financial condition and results of operations.

RISKS RELATING TO THE PRC BANKING INDUSTRY

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

The banking industry in China is becoming increasingly competitive, and competition may intensify in response to consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. We face competition with PRC and foreign commercial banks in all of our principal lines of business. We principally compete with large state-owned commercial banks, nationwide joint-stock commercial banks, rural commercial banks, privately-owned banks and other city commercial banks. Competition between us and foreign financial institutions may intensify in the future. On July 20, 2019, the Office of Financial Stability and Development Committee under the State Council announced the Relevant Measures for Further Opening Up Financial Sector (《關於進一步擴大金融業對外開放的有關舉措》) (the "**Opening-up Measures**"). Under the Opening-up Measures, the PRC will encourage foreign financial institutions to participate in the establishment and investment of wealth management subsidiaries of commercial banks, and at the same time allow foreign institutions to obtain Class A lead underwriting licenses in the inter-bank bond market, and further facilitate the investment of foreign institutional investors in the inter-bank bond market; limits on foreign shareholdings in securities, fund management, futures and life insurance companies in China will be lifted earlier than previously anticipated, and restrictions on foreign investment in insurance companies and insurance asset management companies will be further relaxed. In addition, the State Council published an order ("Order No. 720") on September 30, 2019 to amend the Regulation of the PRC on the Administration of Foreign-Funded Insurance Companies (《中華人民共和國外資保險公司管理條例》) and the Regulation of the PRC on the Administration of Foreign-Funded Banks (《中華人民共和國外資銀行管理條例》).

We compete with our competitors for substantially the same customers on loans, deposits and fee- and commission-based products and services. Such competition may materially and adversely affect our business and future prospects by, for example, reducing our market share in our principal products and services, reducing our fee and commission income, slowing the growth of our loan or deposit portfolios and their related products and services and increasing competition for senior management talents and qualified professional personnel. We also may not be able to carry out our capital replenishment plans as effectively as other competitors do.

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

Furthermore, China's traditional banking institutions are also facing new challenges from innovations in financial products and technology, such as online wealth management products, third party online payment platforms and Internet financing service platforms. Online wealth management products have attracted a large number of retail banking customers. The growing popularity of third-party online payment platforms, such as Alipay and Tenpay, are challenging bank profits. These platforms and other online platform that promote disintermediation in payment systems, such as PayPal and Apple Pay, are increasingly used by customers to process merchant transactions, and these platforms may capture payment transaction revenue that would otherwise be earned by us. In addition, with the rapid growth in e-commerce, Chinese customers are now paying for a wide range of goods and services online. Although a portion of online transactions are paid for by credit or debit cards issued by banks, third-party payment solutions are becoming popular in China, indicating that Internet companies are playing an increasingly important role in China's payment system. Like other commercial banks, we also face competition from other types of Internet finance, such as peer-to-peer ("**P2P**") lending and crowd funding. We cannot assure you that we will successfully cope with the challenges presented by such Internet financing alternatives, and, in the event that we are unable to effectively respond to the changes in the competitive environment of the PRC banking industry or any failure to manage the competitive dynamics to which we are exposed, our business, financial condition and results of operations could be materially and adversely affected.

The competitive environment in the banking industry is continually evolving in line with advancements in information technology, and as a result, traditional banking institutions face intensified challenges with respect to internet finance.

In recent years, Internet-based and Fintech-based financial service companies are developing rapidly in China. At present, the major financial services provided by China's Internet-based and Fintech-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 banking customers for commercial banks' loans. These burgeoning internet-based and Fintech-based financial service companies are able to eliminate the involvement of traditional banks as the middleman and thereby reduce the transactional fees charged to the customers on one hand, and on the other, speed up the processing time of the transactions. Apart from that, block-chain technologies have contributed greatly to the customization of user experience and subsequently improved their satisfaction and loyalty. With the simplicity of the services provided by these high-technology market players, customers are increasingly drawn to the use of these services. In addition, 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 the return of these amounts to commercial banks in the form of interbank deposits. As a result, commercial banks may experience significantly 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.

Furthermore, our business has geographical limitations. As of March 31, 2020, our extensive branch network consisting 119 outlets in total in Shandong Province and Tianjin Municipality. The financial services provided by the internet-based and Fintech-based financial service companies are virtual and not constrained by geography. Often, the services can be launched nationwide and therefore their customer base is not limited by territorial boundaries. Competition from the Internet-based and Fintech-based financial service industry may materially and adversely affect our business, financial condition, results of operations and prospects. Please see "Industry Overview — Industry Trends and Business Drivers — Challenges and Opportunities for Banks Arising from Internet Finance".

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

The PRC banking industry is highly regulated and our business could be directly affected by changes in the policies, laws and regulations relating to the PRC banking industry, such as those affecting the specific lines of business in which we operate, or the specific businesses for which we can charge fees, as well as changes in other governmental policies. We are subject to various regulatory requirements and guidelines set forth by the PRC regulatory authorities, which include but are not limited to the CBIRC, PBoC, MOF, NAO, SAT, CSRC, SAFE and their respective local branches.

Some of these regulatory authorities conduct periodic and ad hoc inspections, examinations and inquiries on our business operations and compliance with their laws, regulations and guidelines, and some have the authority to impose sanctions, penalties or remediation actions. These laws, regulations and guidelines impose regulatory requirements on banking products and services, market entry, opening of new branches or institutions, tax and accounting policy and pricing. The CBIRC, as the primary banking industry regulator, has promulgated a series of banking regulations and guidelines aimed at improving the operations and risk management of Chinese commercial banks. In particular, since late 2017, in line with the policy to mitigate potential risks in the PRC financial markets, the CBIRC, including its predecessor, the CBRC, has promulgated a series of rules and regulations enhancing supervision and adding restrictions on various business operations of banks, including entrusted loans and cooperation between banks and trust companies. These regulations encourage banking institutions and other financial institutions to improve their risk management systems, enhance supervision on business operations and adopt more stringent corporate governance measures. The CBIRC's visions to promote financing services in the real economy and optimize the asset quality of the financial system in the PRC. For details of relevant regulations, please see "Industry Overview — Industry Trends and Business Drivers" and "Supervision and Regulation".

Many of the policies, laws and regulations governing the banking industry or the interpretation thereof may change in the future, and we may not be able to adapt to such changes on a timely basis or at all. Failure to comply with new policies, laws and regulations may result in fines or restrictions on our business. In addition, implementation of relevant laws and regulations may cause us to incur additional costs or expense in business operation, divert our resources and management attention from ordinary business or demand us to engage or retain a large number of personnel with the necessary skills or expertise. We may not be able to cope with these challenges in a timely manner, or at reasonable costs. Occurrence of any of such event could materially and adversely affect our business, financial condition and results of operations.

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

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

Notwithstanding the significant growth in the banking industry in China, it is uncertain whether the banking industry in China can sustain its current rate of growth. A slowdown in the growth of the PRC economy or other unfavorable macroeconomic developments and trends in China and other parts of the world could materially and adversely affect the banking industry in China. Due to new risks caused by overcapacity, local government debts and overall economic slowdown, we cannot assure you that the banking industry in the PRC is free from systemic risks. In particular, the outbreak of COVID-19 globally and US-China trade disputes may further bring uncertainties or material adverse impact to growth in China's economy. The recent slowdown in China's economic growth has led to a rise in non-performing loans in the banking industry. We cannot assure you that the banking industry in China is free from systemic risks, given the slowing economy, increasing local government debts, and overcapacity in certain sectors as well as unbalanced development in many regions in China. In the event that we cannot adapt to such changes, our business, financial condition and results of operations could be materially and adversely affected.

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

In order to meet our liquidity needs, we may borrow short-term funds on the interbank market from time to time. As of March 31, 2020, our financial assets sold under repurchase agreements, deposits from banks and other financial institutions and placements from banks and other financial institutions accounted for 10.4% of our total liabilities. Any significant changes in the liquidity and interest rate in the PRC interbank market could have an impact on our financing costs. A market rate system based on SHIBOR has been developed for the PRC interbank market. However, due to the relatively short history of the PRC interbank market, there may be significant volatility in market interest rates. We cannot assure you that SHIBOR interest rates will not experience irregular fluctuations or will return to the normal range in the short term after irregular fluctuations in such rates in the future. SHIBOR reflects changes in the interest rates, which may materially affect our cost of borrowing of short-term funds in the interbank market. Any significant volatility in interest rates on the interbank market may have a material and adverse effect on our cost of borrowing short-term funds and our liquidity. For further discussion on risks associated with interbank business, please see "— Risks Relating to Our Business — We manage our liquidity demand partly through short-term borrowing in the interbank market. Our borrowing costs may increase as a result of the fluctuation in interest rates on the interbank market, which may materially and adversely affect our liquidity, financial condition and results of operations".

Liquidity constraints may impair our ability to meet regulatory liquidity requirements or financial and lending commitments. Failure to manage these or any other risks relating to the cost and availability of liquidity and funding may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

To comply with the Notice on Management of Pledge of Equity Interest, we included the Voting Restrictions in our Articles of Association, which was approved by CBIRC Shandong Office on December 31, 2014. According to the Notice on Management of Pledge of Equity Interest and our Articles of Association, a Shareholder who pledges his/her equity interest shall notify the Board of Directors in advance. Meanwhile, if a Shareholder who has a seat on the

Board of Directors or the Board of Supervisors, or directly, indirectly or jointly holds or controls more than 2% of the share capital or voting rights in our Bank, pledges his/her equity interests in our Bank, he/she shall make a filing to the Board of Directors prior to the pledge. For details, please see "Supervision and Regulation — Equity and Shareholder Restrictions — Restrictions on Shareholders". The PRC authority may issue more stringent rules and regulations from time to time to set restrictions or prohibitions against share pledges made by shareholders who fail to provide the relevant notice or complete the relevant filing prior to the share pledge. In addition, we cannot assure you that we will not be required by regulatory authorities to impose the Voting Restrictions on our Shareholders, including holders of our H Shares, in a manner deemed appropriate by such regulatory authorities which, in extreme cases, may involve suspension of the relevant Shareholders' voting rights.

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

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

According to relevant requirements of the Interim Measures for Management of Commercial Bank Equity (《商業銀行股權管理暫行辦法》) promulgated by the CBRC on January 5, 2018, no shareholder of a commercial bank may authorize any other person to or accept any other person's authorization to hold equity of a commercial bank; in the event that the shareholders of a commercial bank intend to transfer their equity therein, the shareholders shall inform the transferees to comply with the laws and regulations as well as requirements promulgated by the CBRC; the same investor and its related parties and parties acting in concert shall comply with the shareholding percentage requirement of the CBRC, if they decide to invest in a commercial bank; if the CBRC or its local offices took steps to control risks and take-overs due to material risk issues or material non-compliance of the commercial bank, shareholders shall actively cooperate with the CBRC or its local offices to conduct risks controlling and other relevant actions.

In particular, this regulation sets out that investor and its related parties and parties acting in concert shall apply for, and obtain the prior approval from, the CBIRC or its local offices with authority, if, individually or collectively, (i) they intend to hold over 5% of the total equity interests of a commercial bank of the PRC for the first time, and (ii) each time the equity interest they hold would increase by another 5% of the total equity interest of the relevant bank. Such administrative approval in relation to proposed acquisition of more than 5% of the equity interest of commercial banks through stock market in the PRC or overseas is only valid for six months. Furthermore, according to this regulation, financial products can invest in shares of listed commercial banks, subject to the restriction that the total invested shares controlled by any individual investor, issuer, manager or their respective actual controllers, affiliates or parties acting in concert shall not exceed 5% of the relevant commercial bank's shares. The substantial shareholder of a commercial bank shall not hold shares of such commercial bank through financial products they issue, manage or control through any means. Changes in shareholding restrictions imposed by PRC Government or as provided for in our Articles of Association in the future may materially and adversely affect the value of your investment. For the discussion in this risk factor, "substantial shareholder" refers to (i) shareholders who hold or control over 5% shares, equity or voting rights of a commercial bank; or (ii) shareholders who have material influence on the relevant bank's operation and management, even if they do not meet the shareholding requirement set out above. In determining whether a shareholder has material influence on the relevant bank's operation and management, this regulation takes into account various factors, including nominating directors, supervisors or members of senior management and their capacity of influencing bank's business decision on management or financial conditions through agreements or other means, and other factors that the CBIRC or its local offices deem appropriate.

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

We established a five-level loan classification system in accordance with the guidelines set forth by the CBIRC. The five categories are normal, special mention, substandard, doubtful and loss. In making relevant assessments, we determine and recognize provisions by using the concept of impairment under IAS 39 prior to January 1, 2018. Since January 1, 2018, we started to apply IFRS 9 in determining provisions. We are 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 objective evidence of impairment as a precondition for recognizing credit losses. Although our loan classification criteria is in compliance with the guidelines set forth by the CBIRC, certain aspects of our loan classification criteria may not be the same as those adopted by other PRC commercial banks. For details on our loan classification criteria, please see "Assets and Liabilities — Assets — Loans and Advances to Customers — Asset Quality of Our Loan Portfolio — Loan Classification Criteria". As a result, our loan classification as well as our impairment allowance, as determined under our loan classification and provisioning policies, may differ from those that could be reported if we were incorporated in those countries or regions.

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

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

RISKS RELATING TO THE PRC

We are subject to risks arising from China's economic, political, social conditions, government policies, as well as the global macroeconomic environment.

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

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

As our revenue is derived all entirely from customers based in the PRC, we are particularly exposed to the condition of China's economy. In addition, our business performance is influenced in particular by the economic condition of our customers in China. With respect to our retail banking customer base, weak economic conditions in the PRC could lead to higher levels of unemployment, which have historically resulted in a decrease in new mortgage borrowing and reduced or deferred levels of spending, as well as an increase in arrears, impairment provisions and defaults. Worsening economic and market conditions may also lead to lower levels of business investment in the China, which could result in reduced demand for our products from commercial customers, as well as a reduction in their deposits with us. Therefore, our performance has been and will continue to be affected by China's economy, which in turn is influenced by the global economy. The uncertainties relating to the global economy as well as the political environment in various regions of the world will continue to affect China's economic growth.

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

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

Natural disasters, epidemics, pandemic, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. These regions may be under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought, power shortages or failures, or are susceptible to epidemics, pandemic, potential wars or terrorist attacks. Serious natural disasters may result in a tremendous loss of life, injury and destruction of assets and may disrupt our business and operations. Severe communicable disease outbreaks, including the recent outbreak of COVID-19 across China and around the world, could lead to widespread health crises which may materially and adversely affect the financial markets and the national economy. Acts of war or terrorism may also injure our employees, cause loss of life, or disrupt our business operations.

In particular, the recent outbreak of respiratory illness caused by COVID-19 has continued to transpire. COVID-19 has shown high contagiousness. Stringent measures, including mandatory quarantines and travel restrictions, were imposed in numerous countries including the PRC in an effort to contain the outbreak, causing a noticeable reduction in regional and national economic activities, especially in the wholesale and retail sector, which may in turn heighten some of our customers' credit risks. We cannot foresee whether the outbreak of COVID-19 will be effectively contained, nor can we predict the severity and duration of its impact. If the outbreak is not effectively and timely controlled, market outlook and sentiments will be deteriorating as well as slowdown in regional and national economic growth.

Any of these factors and other factors beyond our control could have an adverse effect on the overall business environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

The legal protections available to you under relevant laws and regulations in the PRC legal system may be limited.

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

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

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

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

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

Withholding tax may be imposed on payments on the H Shares if we fail to comply with FATCA should we receive U.S. source income in the future.

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

The United States has entered into an intergovernmental agreement (an "**IGA**") with Hong Kong (the "**Hong Kong IGA**"), and has agreed in substance with the PRC to an IGA (the "**PRC IGA**"), which potentially modifies the FATCA withholding regime described above. Under the FATCA rules and the IGAs, we and our subsidiaries that are treated as FFIs will be subject to the diligence and reporting obligations under FATCA or an applicable IGA. In order to avoid the withholding regime described above, we and each of our subsidiaries intend to comply with the diligence and reporting requirements under FATCA in accordance with relevant laws and regulations, which may affect how we structure our operations and conduct our business.

It is not yet clear how the Hong Kong IGA and the PRC IGA will address foreign passthru payments. Prospective investors in the H Shares should consult their tax advisors regarding the potential impact of FATCA, the PRC IGA, the Hong Kong IGA and any non-U.S. legislation implementing FATCA, on their investment in the Shares.

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

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

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

From time to time, the value of the Renminbi against the U.S. dollar and other currencies fluctuates, and is affected by a number of factors, such as changes in China's and the international community's political and economic conditions and the fiscal and foreign exchange policies prescribed by PRC Government. On July 21, 2005, PRC Government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar so that the Renminbi is now permitted to fluctuate in a regulated band that is based on reference to a basket of currencies determined by the PBoC. PRC Government further reformed the Renminbi exchange rate regime in 2012 and 2014. On August 11, 2015, PBoC announced its intention to improve the central parity of the Renminbi against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. With the development of foreign exchange markets and progress towards interest rate liberalization and Renminbi internationalization, PRC Government may in the future announce further reforms to the exchange rate regime.

As all of our revenue is denominated in Renminbi, and the proceeds from the Global Offering will be received in Hong Kong dollars, any appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other currencies may result in the decrease in the value of our foreign currency denominated assets and our proceeds from the Global Offering. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our H Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign exchange currency exposure at reasonable costs. We cannot assure you that we will be able to minimize or reduce our foreign currency risk exposure relating to our foreign currency denominated assets. Furthermore, we are also currently required to obtain the approval from SAFE before converting significant amounts of foreign currencies into Renminbi. All these factors could adversely affect our financial condition and results of operations.

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

Under applicable PRC tax laws, regulations, and statutory documents, non-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 resident individuals are generally subject to PRC individual income tax under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) at a rate of 20% on their dividends and gains sourced from the PRC unless specifically exempted by the finance authority of the State Council or reduced or eliminated by an applicable income tax treaty or arrangement. We are required to withhold and settle such tax on behalf of the non-resident individuals from dividend payments made to them. According to relevant applicable regulations, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends, withhold individual income tax at the rate of 10% in general, unless a different rate applies under an applicable tax treaty or arrangement or where the non-resident individuals reside in a jurisdiction that does not have a tax treaty or arrangement with the PRC. Hong Kong investors are not required to pay individual income tax in the PRC on gains realized from public trading of H shares purchased on the same exchange pursuant to the Fourth Protocol of the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《<內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排>第四議定書》) signed on April 1, 2015, effective on December 29, 2015. However, as of the Latest Practicable Date, there remains uncertainty in the interpretation and application of relevant current Chinese tax laws and regulations as to whether gains realized upon disposal of H Shares by non-resident individuals in other jurisdictions are subject to PRC individual income tax if such tax is not exempted pursuant to a tax treaty/arrangement with the PRC.

Non-resident enterprises that do not have establishments or places in the PRC, or have establishments or places in the PRC but their income is not effectively connected to such establishments or places are subject to PRC enterprise income tax at the rate of 10% on dividends received from PRC resident enterprises and gains realized upon disposal of equity interests in PRC resident enterprises pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and its implementation regulations, which may be further reduced or exempted under an applicable income tax treaty or arrangement between the PRC and the jurisdiction where the non-PRC resident enterprise resides. As of the Latest Practicable Date, there are no explicit rules about how to levy tax on gains realized by non-resident enterprise holders of H Shares through the sale or transfer by other means of H Shares.

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

Payment of dividends is subject to restrictions under PRC laws.

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

We cannot give assurance to the accuracy or comparability of facts, forecasts and statistics contained in this prospectus regarding the PRC, the PRC economy or the PRC and global banking industries.

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

RISKS RELATING TO THE GLOBAL OFFERING

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

Prior to the Global Offering, there was no public market for our H Shares. There can be no assurance that an active trading market for our H Shares will develop and sustain following the Global Offering. In addition, the initial Offer Price of our H Shares is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and 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. Moreover, the trading volume and the price of our H Shares may be affected by various factors, including the research reports yet to be released about us prepared by securities and industries analysts or a reduction of their ratings on our H Shares. If an active public market for our H Shares does not develop after the Global Offering, the market price and liquidity of our H Shares could be materially and adversely affected.

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

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

If the Offer Price of our H Shares is higher than our net tangible asset value per Share, you will experience immediate dilution upon the purchase of these Shares.

The initial public offering price of our H Shares may be substantially higher than the pro forma adjusted net tangible assets per Share as of March 31, 2020. Therefore, purchasers of our H Shares in the Global Offering may experience an immediate dilution in pro forma net tangible assets per Share and our existing Shareholders may receive an increase in the pro forma adjusted net tangible assets per Share of their Shares. In addition, holders of our H Shares may experience a dilution of their shareholding percentage if the Over-allotment Option is exercised or if we obtain additional capital in the future through equity offerings other than on a pro rata basis to our then existing Shareholders.

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

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

Dividends distributed in the past may not be indicative of the amount of dividends that we may distribute in the future.

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

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

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

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

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

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 Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Listing Rules for the purpose of giving information to the public with regard to us. 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 matters the omission of which would make this prospectus or any statement herein misleading.

APPROVAL OF THE CSRC AND THE CBIRC

Our Bank obtained approval letters from CBIRC Shandong Office and the CSRC on March 27, 2020 and September 9, 2020, respectively, for the submission of the application to list our H Shares on the Hong Kong Stock Exchange and for the Global Offering, respectively. In granting such approval, neither the CSRC nor the CBIRC Shandong Office shall accept any responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or on the Application Forms.

UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of 87,728,000 H Shares initially offered and the International Offering of 789,543,000 H Shares initially offered (subject, in each case, to reallocation on the basis under "Structure of the Global Offering" in this prospectus).

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us. The International Underwriting Agreement is expected to be entered into on or about Tuesday, October 6, 2020, subject to agreement on the Offer Price between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us. Further details of the Underwriters and the underwriting arrangements are set out in "Underwriting" in this prospectus.

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

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

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

DETERMINATION OF THE OFFER PRICE

The H Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on or around Tuesday, October 6, 2020 or such later date as may be agreed upon between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us, and in any event no later than Friday, October 9, 2020. If the Joint Global Coordinator (for themselves and on behalf of the Underwriters) and the Bank are unable to reach an agreement on the Offer Price on such date, the Global Offering will not proceed.

RESTRICTIONS ON OFFER AND SALE OF THE H SHARES

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

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, our H Shares, including any H Shares which may be issued pursuant to the Global Offering and upon the exercise of the Over-allotment Option. Our Domestic Shares may be converted to H Shares after obtaining the approval of the CSRC or the authorized approval authorities of the State Council, details of which are set out in “Share Capital — Conversion of the Domestic Shares into H Shares” in this prospectus.

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on Monday, October 12, 2020. Except for our pending 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 any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

The H Shares will be traded in board lot of 1,000 H Shares. The stock code of the H Shares is 9677.

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

COMPLIANCE WITH THE LISTING RULES

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

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

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:

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

(b) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and that 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;

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

(d) authorizes us to enter into a contract on his or her 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.

PROFESSIONAL TAX ADVICE RECOMMENDED

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

OVER-ALLOTMENT AND STABILIZATION

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

PROCEDURES FOR APPLICATION FOR THE H SHARES

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

STRUCTURE OF THE GLOBAL OFFERING

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

H SHARE REGISTER AND STAMP DUTY

All the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the H Share register of members of our Bank maintained by Computershare Hong Kong Investor Services Limited in Hong Kong. We will maintain the principal register of members at our headquarters in the PRC.

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

Unless otherwise determined by the Bank, dividends payable in Hong Kong dollars in respect of 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.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date. Unless indicated otherwise, (i) the translations between Renminbi and Hong Kong dollars were made at the rate of RMB0.8721 to HK$1.00, the median rate set by PBoC for foreign exchange transactions prevailing on September 18, 2020; and (ii) the translations between Renminbi and U.S. dollars were made at the rate of RMB6.7591 to US$1.00, the median rate set by PBoC for foreign exchange transactions prevailing on September 18, 2020. Further information on exchange rates is set forth in "Appendix VII — Taxation and Foreign Exchange" to this prospectus.

LANGUAGE

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

ROUNDING

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

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

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, our Bank must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Our Bank's headquarter and principal business and operations are located, managed and conducted in the PRC. All of our Bank's material assets are situated in the PRC. None of the executive Directors is a Hong Kong permanent resident or is ordinarily based in Hong Kong. As a result, our Bank does not, and will not, in the foreseeable future, have sufficient management presence in Hong Kong as required under Rules 8.12 and 19A.15 of the Listing Rules. Furthermore, it would be impractical and commercially unnecessary for our Bank to appoint additional executive Directors who are ordinarily resident in Hong Kong or to relocate the existing PRC based executive Directors to Hong Kong. Accordingly, our Bank has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 8.12 and 19A.15 of the Listing Rules on the condition of the following arrangements for maintaining regular communication with the Hong Kong Stock Exchange:

(i) our Bank has appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Bank's principal channel of communication with the Hong Kong Stock Exchange. The two authorized representatives of our Bank are Mr. BI Qiubo, our executive Director, who is an ordinary resident in the PRC, and Ms. TAM Pak Yu, Vivien (譚栢如), one of the joint company secretaries of our Bank who is an ordinary resident in Hong Kong. Although Mr. BI Qiubo resides in the PRC, he possesses valid travel documents to visit Hong Kong and is able to renew such travel document when it expires. Accordingly, each of the two authorized representatives of our Bank will be available to meet with the Hong Kong Stock Exchange within a reasonable period of time upon the request of the Hong Kong Stock Exchange and will be readily contactable by telephone, facsimile and email;

(ii) each of the two authorized representatives of our Bank has means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors for any matters. Each Director has provided his/her respective office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the authorized representatives of our Bank and the Hong Kong Stock Exchange;

(iii) the Directors, who are not ordinarily resident in Hong Kong, have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and are able to meet with the Hong Kong Stock Exchange within a reasonable period of time;

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

(v) any meeting between the Hong Kong Stock Exchange and the Directors will be arranged through the two authorized representatives of our Bank or the compliance advisor of our Bank or directly with the Directors within a reasonable time frame. Our Bank will inform the Hong Kong Stock Exchange promptly in respect of any changes in the two authorized representatives and its compliance advisor.

WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, our Bank must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. Pursuant to Rule 3.28 of the Listing Rules, our Bank must appoint as the company secretary an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

The Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

(i) a member of The Hong Kong Institute of Chartered Secretaries;

(ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and

(iii) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

In accessing "relevant experience", the Hong Kong Stock Exchange will consider the followings of the individual:

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

(ii) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

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

(iv) professional qualifications in other jurisdictions.

Our Bank has appointed Mr. BI Qiubo and Ms. TAM Pak Yu, Vivien as the joint company secretaries. Mr. BI Qiubo has been the secretary to the Board since January 2006, and has extensive knowledge about our Bank's business operations and corporate culture and has extensive experience in matters concerning the Board and our Bank's corporate governance. For more details of Mr. BI Qiubo's biography, please see "Directors, Supervisors and Senior Management — Executive Directors". Although our Bank believes, having regard to Mr. BI Qiubo's past experience in handling administrative and corporate matters, that he has a thorough understanding of our Bank and the Board, Mr. BI Qiubo does not possess the requisite qualifications as required by Rule 3.28 of the Listing Rules. Therefore, our Bank has appointed Ms. TAM Pak Yu, Vivien, who is a Hong Kong resident and possesses the qualification and relevant experience as stipulated under Rule 3.28 of the Listing Rules, to be a joint company secretary of our Bank. For more details of Ms. TAM Pak Yu, Vivien's biography, please see "Directors, Supervisors and Senior Management — Joint Company Secretaries".

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

(i) Ms. TAM Pak Yu, Vivien, one of the joint company secretaries of our Bank who satisfies the requirements under Rule 3.28 of the Listing Rules, will assist Mr. BI Qiubo so as to enable him to discharge his duties and responsibilities as a joint company secretary of our Bank. Given Ms. TAM Pak Yu, Vivien's relevant experiences, she will be able to advise both Mr. BI Qiubo and our Bank on the relevant requirements of the Listing Rules as well as other applicable laws and regulations of Hong Kong;

(ii) our Bank undertakes to re-apply to the Hong Kong Stock Exchange in the event that Ms. TAM Pak Yu, Vivien ceases to meet the requirements under Rule 3.28 of the Listing Rules or otherwise ceases to serve as a joint company secretary;

(iii) Mr. BI Qiubo, one of the joint company secretaries of our Bank, will be assisted by Ms. TAM Pak Yu, Vivien, for a period from the Listing Date to the end of three years after the Listing Date, which should be sufficient for him to acquire the requisite knowledge and experience under Rule 3.28 of the Listing Rules;

(iv) our Bank will ensure that Mr. BI Qiubo has access to the relevant trainings and support to enable him to familiarize himself with the Listing Rules and the duties required of a company secretary of a Hong Kong listed company, and Mr. BI Qiubo has undertaken to attend such trainings;

(v) Ms. TAM Pak Yu, Vivien will communicate with Mr. BI Qiubo on a regular basis regarding matters in relation to corporate governance, the Listing Rules as well as other applicable laws and regulations of Hong Kong which are relevant to the operations and affairs of our Bank. Ms. TAM Pak Yu, Vivien will work closely with, and provide assistance to Mr. BI Qiubo with a view to discharging his duties and responsibilities as a company secretary, including but not limited to organizing the Board meetings and Shareholders' general meetings; and

(vi) pursuant to Rule 3.29 of the Listing Rules, Mr. BI Qiubo and Ms. TAM Pak Yu, Vivien will also attend in each financial year no less than 15 hours of relevant professional training courses to familiarize themselves with the requirements of the Listing Rules and other legal and regulatory requirements of Hong Kong. Both Mr. BI Qiubo and Ms. TAM Pak Yu, Vivien will be advised by the legal advisors of our Bank as to Hong Kong law and the compliance advisor of our Bank as and when appropriate and required.

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

WAIVER IN RELATION TO HONG KONG FINANCIAL DISCLOSURE

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

As our Bank is engaged in banking activities, pursuant to Rule 4.10 of the Listing Rules, the financial information to be disclosed in this prospectus should include information that is required to be disclosed in respect of those specific matters under the Banking (Disclosure) Rules.

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

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

Section No.	Disclosure Requirements(1)	Reason for a Waiver in Relation to the Specific Disclosure	Proposal for Disclosure	Expected Timing for Full Compliance
99	Sector information	Our Bank maintains a breakdown of customer loans by industry sector as set out in the Classification and Codes of National Economic Industries in our Bank's loans system for the purpose of filing returns to the CBIRC.	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 CBIRC and maintains a breakdown of loans and advances to customers by industry sector based on the classification system as prescribed by the CBIRC, e.g., loans are categorized into corporate loans and personal loans which are further classified into detailed subcategories by industry/nature. Our Bank has disclosed the loans and advances to customers in industry sectors in accordance with its management reports based on the CBIRC classification in Note 19(b) to the Accountants' Report as set out in Appendix I to this prospectus. Our Bank considers that the current disclosure is sufficient to serve HKMA's disclosure objectives.	N/A
102	An authorized institution shall disclose its non-HKD currency exposures which arise from trading, non-trading and structural positions in accordance with the return relating to non-HKD currency positions it submitted to HKMA pursuant to section 63 of our Banking Ordinance in respect of the annual reporting period.	Our Bank's accounts are prepared and denominated in RMB, which means that our Bank only discloses non-RMB currency exposures instead of non-HKD currency exposures.	N/A	N/A
16M	Additional annual disclosure to be made by an authorised institution using STC approach to calculate its credit risk for non-securitization exposures.	The computation basis for risks is promulgated by the CBIRC as set out in the Core Indicators (Provisional).	Our Bank provides information on relevant capital structure and information on adequacy level in accordance with the CBIRC disclosure requirements. Our Bank believes that these requirements result in disclosure similar to that required under the Banking (Disclosure) Rules.	N/A

Note:

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

Save for the above, as a financial institution incorporated and based in the PRC, our Bank is required to comply with the regulatory requirements set out by the CBIRC and the PBoC. Certain provisions of the Banking (Disclosure) Rules require disclosure in respect of the capital structure, capital base (in particular, relating to the level of capital adequacy), cross-border claims, liquidity ratios, PRC non-bank exposures and credit risks. Our Bank has maintained and compiled data relating to these matters in accordance with the regulatory requirements of the CBIRC and the PBoC. Our Bank believes that the CBIRC and the PBoC requirements are intended to address similar disclosure considerations of the requirements under the Banking (Disclosure) Rules, and the differences between the above disclosure requirements under the two regulatory regimes are minimal and immaterial. If our Bank attempts to comply with such requirements under the Banking (Disclosure) Rules in parallel with the CBIRC and the PBoC regulations, our Bank would be required, in its view, to carry out additional work to compile similar information already required and maintained in accordance with the CBIRC and the PBoC regulations. As a result, it would be impractical for our Bank to prepare its financial disclosure in accordance with the Banking (Disclosure) Rules and our Bank proposes to disclose the information in compliance with the CBIRC 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. Our Bank is of the view that this prospectus contains sufficient information for investors to make their fully informed investment decision notwithstanding the differences between the CBIRC and the PBoC requirements on the one hand, and the requirements under the Banking (Disclosure) Rules on the other hand.

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

WAIVER IN RELATION TO PUBLIC FLOAT

Rule 8.08(1) of the Listing Rules provides that there must be an open market in the securities for which listing is sought. It normally means that the minimum public float of a listed issuer must at all times be at least 25% of the issuer's total issued share capital.

Rule 8.08(1)(d) of the Listing Rules further provides that for issuer with large market capitalisation of over HK$10 billion at the time of listing, the Hong Kong Stock Exchange may, at its discretion, accept a lower public float percentage of between 15% and 25%, where the Hong Kong Stock Exchange is satisfied that (a) the number of shares concerned; and (b) the extent of their distribution would enable the market to operate properly with a lower public float.

The Bank has applied for, and the Hong Kong Stock Exchange has agreed to exercise its discretion under Rule 8.08(1) of the Listing Rules to accept, a lower public float percentage of the Bank of the highest of: (a) 15.00% of the total issued share capital of the Bank; or (b) such percentage of H Shares of the total issued share capital of the Bank to be held by the public after the exercise of the Over-allotment Option. Considering the substantial market capitalisation of the Bank at the time of completion of the Global Offering, it is expected that there would be an open market and high liquidity for the H Shares.

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

(a) the Bank will have an expected market capitalization of over HK$10 billion at the time of completion of the Global Offering as required under Rule 8.08(1)(d) of the Listing Rules;

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

(c) the Bank will make appropriate disclosure of the lower percentage of public float in this prospectus;

(d) the Bank will implement appropriate measures and mechanisms to ensure continual maintenance of the minimum percentage of public float prescribed by the Hong Kong Stock Exchange; and

(e) the Bank will confirm sufficiency of public float in its annual reports after the Listing.

Name	Residential Address	Nationality
Executive Directors		
Mr. TAN Xianguo (譚先國)	Room 903-1003, No. 105 Qigutuan Community Huancui District Weihai City Shandong Province the PRC	Chinese
Mr. MENG Dongxiao (孟東曉)	Room 2-1109, Building 1-3 Yulan Apartment No. 8, Longao North Road Lixia District Jinan City Shandong Province the PRC	Chinese
Mr. ZHANG Renzhao (張仁釗)	Room 301 No. 15 South Part of Yuehai Garden Weihai City Shandong Province the PRC	Chinese
Mr. BI Qiubo (畢秋波)	20-1602, Weihai City Crossing Weihai City Shandong Province the PRC	Chinese
Ms. TAO Zunjian (陶遵建)	E-708, No. 128, Xinwei Road Weihai City Shandong Province the PRC	Chinese
Non-executive Directors		
Mr. LI Hang (李航)	Room 1102, Unit 2, Building 11 New East Garden, Kanghong Road Lixia District Jinan City Shandong Province the PRC	Chinese

Name	Residential Address	Nationality
Mr. WANG Song (王松)	No.14-901, Hexie Garden Huancui District Weihai City Shandong Province the PRC	Chinese
Mr. SUN Chenglong (孫成龍)	5-3-1102 Sanqing Master of City Community Lixia District Jinan City Shandong Province the PRC	Chinese
Mr. YI Jijun (伊繼軍)	Room 1306, Building 2 Unit 6, No. 9, Jida Road Shizhong District Jinan City Shandong Province the PRC	Chinese
Mr. WANG Qixiang (王啟祥)	3-501, Building 8 Golden 99 Huafu Community No. 30, Jiangshuiquan Road Lixia District Jinan City Shandong Province the PRC	Chinese

Independent Non-executive Directors

Name	Residential Address	Nationality
Mr. LIU Xue (劉學)	Room 101, 1-2F, Building A28 Village Two, Xiangshan Qingqin Villa, Minzhuang Road Haidian District Beijing the PRC	Chinese

Name	Residential Address	Nationality
Mr. LU Qing (路清)	Room 1101, Unit 1 Building 6, Yinfeng Villa Shizhong District Jinan City Shandong Province the PRC	Chinese
Mr. SUN Guomao (孫國茂)	Room 504, Building 1 Talent Apartment of Qingdao University Qingdao City Shandong Province the PRC	Chinese
Mr. ZHANG Guanghong (張廣鴻)	Room 202, Unit 2 Building 9, Furun Villa No. 3 Hailong Road Laoshan District Qingdao City Shandong Province the PRC	Chinese
Mr. FAN Chi Chiu (范智超)	Flat A, 8/F, Ngar Lan Mansion Westlands Court 9 Westlands Road Quarry Bay Hong Kong	Chinese
Supervisors		
Mr. DENG Wei (鄧衛)	6-202 No. 5 Shanghai Road Weihai City Shandong Province the PRC	Chinese
Ms. ZHAO Lijie (趙麗傑)	Room 703 No. 7 Haiyuan Lidu Community Weihai Economic and Technological Development Zone Shandong Province the PRC	Chinese

Name	Residential Address	Nationality
Mr. ZHOU Hao (周浩)	No. 5#1401, Shui'anmingju Weihai City Shandong Province the PRC	Chinese
Mr. FENG Yongdong (馮永東)	East Room, 4/F, Unit 3 East side of Building 21 1st Yunxing District, Hushan Town Rongcheng City Shandong Province the PRC	Chinese
Mr. LIU Changjie (劉昌傑)	Room 502, No. C, Sunshine Garden Huancui District Weihai City Shandong Province the PRC	Chinese
Ms. ZHANG Xuening (張雪凝)	Room 701, No. 105 Qigutuan Community Weihai City Shandong Province the PRC	Chinese
Mr. TAN Degui (譚德貴)	112, Building 20, North Lane, Xibahe Beijing the PRC	Chinese
Ms. TENG Bo (滕波)	502, Unit 2, Building 8, 21 Cuiwei Road, Haidian District Beijing the PRC	Chinese
Ms. LI Yuanfen (李元芬)	104, Building 4, Qingqing Town Huancui District Weihai City Shandong Province the PRC	Chinese

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

Joint Sponsors	**Huatai Financial Holdings (Hong Kong) Limited** 62/F, The Center 99 Queen's Road Central Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	CMB International Capital Limited 45/F, Champion Tower 3 Garden Road Central, Hong Kong
Joint Global Coordinators	**Huatai Financial Holdings (Hong Kong) Limited** 62/F, The Center 99 Queen's Road Central Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	CMB International Capital Limited 45/F, Champion Tower 3 Garden Road Central, Hong Kong
	CSFG International Securities Limited Room 701, 7/F, Southland Building 48 Connaught Road Central Central, Hong Kong

Joint Bookrunners	**Huatai Financial Holdings (Hong Kong) Limited** 62/F, The Center 99 Queen's Road Central Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	CMB International Capital Limited 45/F, Champion Tower 3 Garden Road Central, Hong Kong
	CSFG International Securities Limited Room 701, 7/F, Southland Building 48 Connaught Road Central Central, Hong Kong
	Forthright Securities Company Limited 19-20/F, BOC Group Life Assurance Tower 134-136 Des Voeux Road Central, Hong Kong
	Sheng Yuan Securities Limited Room 2202, 22/F No. 238 Des Voeux Road Central Hong Kong
	Zhongtai International Securities Limited 19th Floor, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
	CCB International Capital Limited 12/F, CCB Tower 3 Connaught Road Central Central, Hong Kong

ABCI Capital Limited
11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

ICBC International Capital Limited
37/F, ICBC Tower
3 Garden Road
Hong Kong

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

AMTD Global Markets Limited
23-25/F Nexxus Building
41 Connaught Road Central
Hong Kong

Joint Lead Managers	**Huatai Financial Holdings (Hong Kong) Limited** 62/F, The Center 99 Queen's Road Central Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	CMB International Capital Limited 45/F, Champion Tower 3 Garden Road Central, Hong Kong
	CSFG International Securities Limited Room 701, 7/F, Southland Building 48 Connaught Road Central Central, Hong Kong

Forthright Securities Company Limited
19-20/F, BOC Group Life Assurance Tower
134-136 Des Voeux Road
Central, Hong Kong

Sheng Yuan Securities Limited
Room 2202, 22/F
No. 238 Des Voeux Road Central
Hong Kong

Zhongtai International Securities Limited
19th Floor, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

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

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

ICBC International Securities Limited
37/F, ICBC Tower
3 Garden Road
Hong Kong

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

AMTD Global Markets Limited
23-25/F Nexxus Building
41 Connaught Road Central
Hong Kong

Maxa Capital Limited
Unit 1908, Harbour Centre
25 Harbour Road, Wanchai
Hong Kong

Legal Advisors to our Bank	*As to Hong Kong and United States laws:* **Paul Hastings** 21-22/F, Bank of China Tower 1 Garden Road Hong Kong *As to PRC laws:* **Beijing Dentons Law Offices, LLP** 7/F, Building D Parkview Green FangCaoDi No. 9, Dongdaqiao Road Chaoyang District Beijing the PRC
Legal Advisors to the Joint Sponsors and the Underwriters	*As to Hong Kong and United States laws:* **Freshfields Bruckhaus Deringer** 55th Floor, One Island East Taikoo Place Quarry Bay Hong Kong *As to PRC laws:* **King&Wood Mallesons** 18th Floor, East Tower World Financial Center No. 1 Dongsanhuan Zhonglu Chaoyang District Beijing the PRC
Reporting Accountants and Auditor	**BDO Limited** *Certified Public Accountants* *Registered Public* *Interest Entity Auditor* 25th Floor, Wing On Centre 111 Connaught Road Central Hong Kong

Compliance Advisor	**Central China International Capital Limited** Suite 3108 Two Exchange Square 8 Connaught Place Central Hong Kong
Receiving Bank	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong

Registered Address and Address of Head Office	9 Bao Quan Road Weihai City Shandong Province the PRC
Representative Office and Place of Business in Hong Kong	40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
Website Address	**http://www.whccb.com/** *(The contents of the website do not form a part of this prospectus)*
Joint Company Secretaries	Mr. BI Qiubo (畢秋波) 20-1602 Weihai City Crossing Weihai City Shandong Province the PRC Ms. TAM Pak Yu, Vivien (譚栢如) *ACIS, ACS* 40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
Authorized Representatives	Mr. BI Qiubo (畢秋波) 20-1602 Weihai City Crossing Weihai City Shandong Province the PRC Ms. TAM Pak Yu, Vivien (譚栢如) *ACIS, ACS* 40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
Board Committees	**Risk Management Committee** Mr. LI Hang (李航) *(Chairman)* Mr. WANG Song (王松) Mr. YI Jijun (伊繼軍) Mr. SUN Guomao (孫國茂) Mr. ZHANG Renzhao (張仁釗)

Strategic Development Research Committee
Mr. TAN Xianguo (譚先國) *(Chairman)*
Mr. MENG Dongxiao (孟東曉)
Mr. LI Hang (李航)
Mr. WANG Song (王松)
Mr. LIU Xue (劉學)
Mr. ZHANG Renzhao (張仁釗)
Mr. BI Qiubo (畢秋波)

Nomination and Remuneration Committee
Mr. LIU Xue (劉學) *(Chairman)*
Mr. FAN Chi Chiu (范智超)
Mr. SUN Guomao (孫國茂)
Mr. WANG Qixiang (王啟祥)
Mr. BI Qiubo (畢秋波)

Related Party Transactions Control Committee
Mr. FAN Chi Chiu (范智超) *(Chairman)*
Mr. LU Qing (路清)
Mr. WANG Qixiang (王啟祥)
Mr. ZHANG Guanghong (張廣鴻)
Ms. TAO Zunjian (陶遵建)

Audit Committee
Mr. LU Qing (路清) *(Chairman)*
Mr. SUN Guomao (孫國茂)
Mr. SUN Chenglong (孫成龍)
Mr. YI Jijun (伊繼軍)
Mr. ZHANG Guanghong (張廣鴻)

Consumer Rights Protection Committee
Mr. WANG Song (王松) *(Chairman)*
Mr. SUN Chenglong (孫成龍)
Mr. YI Jijun (伊繼軍)
Mr. WANG Qixiang (王啟祥)
Ms. TAO Zunjian (陶遵建)

H Share Registrar

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

This section contains information and statistics relating to the industry in which we operate. We have extracted and derived such information, in part, from data relating to us which were prepared in accordance with IFRS, and from various official or publicly available sources derived from data prepared in accordance with PRC GAAP or other applicable GAAP or accounting standards which may differ from IFRS in certain significant respects. In addition, the information provided by the various official or publicly available sources may not be consistent with the information compiled within or outside PRC 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 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. Our Directors confirm that, after taking reasonable care, as of the Latest Practicable Date, there has been no material adverse change in the market information presented in this section.

NATIONAL AND REGIONAL ECONOMY

The PRC's Economy

Since the Chinese economic reform, PRC has been one of the world's fastest growing economies and has become the world's second largest economy since 2010 by nominal GDP. PRC's nominal GDP increased at a CAGR of 9.0% from RMB64.4 trillion in 2014 to RMB99.1 trillion in 2019. Meanwhile, PRC's GDP per capita also grew steadily at a CAGR of 8.5% from RMB47,173 in 2014 to RMB70,892 in 2019.

Following the rapid growth over the last few decades, PRC's economy had entered into a "New Normal" stage. It attached greater importance in promoting cooperation with different countries and regions, and strived to explore and cultivate drivers for economic growth. PRC has further opened up by implementing the initiative of building "Belt and Road Initiative" which facilitates the connectivity and cooperation among the relevant countries and brings new drivers for PRC's economic development. The expansion of PRC's free trade zones, represented by Shanghai Free-Trade Zone and Tianjin Free-Trade Zone, also provides new drivers and growth opportunities behind the regional economic development. Meanwhile, the development of metropolitan cluster regions including the Beijing-Tianjin-Hebei region, the Yangtze River Economic Zone and the Guangdong-Hong Kong-Macao Greater Bay Area lays a solid foundation for the sustainable economic development in China.

Shandong Province's Economy

Shandong Province is located on the east coast of China and is part of Eastern China. It covers a land area of 157,000 km^2, with a population of 100.7 million. It has 16 cities and 137 counties under its jurisdiction. Its main cities include Weihai City, Jinan City, Qingdao City, Zibo City, Yantai City and Zaozhuang City. Shandong Province has a well-developed transportation system such as the Beijing-Shanghai Railway and other multiple high speed railway lines, and has abundant natural resources and complete industrial systems. In addition, as a strong economic province in China, Shandong Province has abundant natural resources and a comprehensive mix of industries. The nominal GDP of Shandong Province increased from RMB5.94 trillion in 2014 to RMB7.11 trillion in 2019, and its nominal GDP continued to rank third in the country. As one of the major agricultural production bases in China, Shandong Province is mainly engaged in the production of grains, fruits and vegetables, oil crops, aquatic products, and livestock and agricultural by-products. In addition, Shandong Province is also an important energy base and coal fields in China. As of December 31, 2019, the crude oil produced in Shandong Province made up one-third of the nation's total. The industries of Shandong Province include traditional sectors such as food, metallurgy, textiles, household appliances, chemicals, construction materials and automobiles, as well as emerging industries such as high-speed trains, marine science and biopharmaceutical.

Leveraging favourable policies encouraging economic development, Shandong Province has experienced rapid economic growth in recent years and Shandong Province's GDP per capita grew steadily from RMB60,879 in 2014 to RMB70,653 in 2019. Capitalizing on its strategic geographic location, Shandong Province serves as a key hub in transportation in North East Asia. Shandong Province's economy has benefited and will continue to benefit from the implementation of the following recent PRC national strategies:

- On August 30, 2019, the China (Shandong) Pilot Free Trade Zone was officially established. The total implementation area of China (Shandong) Pilot Free Trade Zone is roughly 119.98 square kilometers, covering Jinan, Qingdao and Yantai. The China (Shandong) Pilot Free Trade Zone have identified specific positioning and insists on differentiated exploration. Using its unique geographical advantages and transportation, it mainly focuses on the development of artificial intelligence, industrial finance, medical and health care, cultural industries, information technology and other industries. Since the China (Shandong) Pilot Free Trade Zone in full swing, more than 112 pilot tasks have been implemented, various policy bonuses ("政策紅利") have been continuously implemented, and more than 7,000 newly registered companies have been established. The establishment and development of the Shandong Pilot Free Trade Zone has further expanded the comprehensive reform and opening-up experimental fields in Shandong Province, and thus pushing Shandong Province to a new height, which in turns provide new drivers and growth opportunities for Shandong Province;
- In January 2018, the State Council approved the Overall Plan for the Building of Comprehensive Experimental Area for Replacing Old Growth Drivers with New Growth Drivers in Shandong Province (《關於山東新舊動能轉換綜合試驗區建設總體方案》). It is the first regional development strategy that aims to replace existing growth drivers with new growth drivers in order to promote the continuous economy growth in Shandong Province;
- In April 2017, the State Council approved the Overall Urban Plan (2011-2020) for Weihai City (《威海市城市總體規劃(2011-2020年)》), which positions Weihai City as a regional hub city in Shandong Province and an important marine industry base and coastal tourism city; and
- In September 2015, the State Council approved the Outline of Cooperative Development in Bohai Rim Region (《環渤海地區合作發展綱要》), which promotes the establishment of Shandong Province as an important gateway for opening up in North China, and an important base for advanced manufacturing industry, advanced technology industry in the PRC as well as a marine economy demonstration area.

The table below sets forth the GDP and per capita disposable income of urban households for the periods indicated:

	For the year ended December 31,						CAGR
	2014	2015	2016	2017	2018	2019	(2014-2019)
Nominal GDP (in billions of RMB)	5,943	6,300	6,802	7,263	7,647	7,107	3.6%
GDP per capita (in RMB)	60,879	64,168	68,733	72,807	76,267	70,653	3.0%
Per capita disposable income of urban households (in RMB)	29,222	31,545	34,012	36,789	39,549	42,329	7.7%

Source: NBS, NBS Shandong Office

Weihai City's Economy

Weihai City is a prefecture-level city and a major seaport in eastern Shandong Province. It borders Yantai and the Yellow Sea and is the closest PRC city to South Korea. Weihai City has a population of 2.8 million and a total area of approximately 5,800 square kilometers. As one of the most developed areas in north China, Weihai City achieved a nominal GDP of RMB296.0 billion and GDP per capita of RMB104,504 in 2019. There are four major industries in Weihai City, i.e. marine aquaculture and fishery, industrial and agricultural manufacturing, tourism and import and exports.

The table below sets forth the GDP and per capita disposable income of urban households for the periods indicated:

	For the year ended December 31,						CAGR
	2014	2015	2016	2017	2018	2019	(2014-2019)
Nominal GDP (in billions of RMB)	283	305	330	351	290	296	0.9%
GDP per capita (in RMB)	100,835	108,542	117,340	124,463	102,473	104,504	0.7%
Per capita disposable income of urban households (in RMB)	34,254	36,336	39,363	42,703	45,896	49,044	7.4%

Source: NBS, NBS Weihai City Office

PRC BANKING INDUSTRY

Overview

Before 1970s, the PBoC served as the central bank of PRC, and at the same time also engaged in commercial banking businesses such as deposit-taking, lending and settlement. As PRC started its economic reform and began opening up in 1979, PRC's banking industry underwent significant transformations since the late 1970s. With accession to the World Trade Organization (WTO) in 2001, PRC Government has taken various measures to open up the banking sector. In December 2003, the CBRC issued rules in relation to the investment in Chinese-funded financial institutions by foreign financial institutions, allowing qualified foreign financial institutions to invest in PRC's local commercial banks. Meanwhile, many commercial banks have improved their asset quality by strengthening their credit risk management, writing off non-performing loans, and adopting the international standards and methods, and listed their shares on domestic or overseas stock exchange to enhance their capital strength over the past decade.

In recent years, the banking industry in PRC is becoming increasingly competitive, and competition may continue to intensify in response to consumer demand, technological changes, the impact of market consolidation, new market entrants, regulatory actions and other factors. On the July 20, 2019, the Office of Financial Stability and Development Committee under the State Council announced the Relevant Measures for Further Opening Up Financial Sector (《關於進一步擴大金融業對外開放的有關舉措》) (the "**Opening-up Measures**"). Under the Opening-up Measures, PRC will encourage foreign financial institutions to participate in the establishment and investment of wealth management subsidiaries of commercial banks, and at the same time allow foreign institutions to obtain Class A lead underwriting licenses in the inter-bank bond market, and further facilitate the investment of foreign institutional investors in the inter-bank bond market. In addition, the State Council revised the Foreign Banking Supervisory Rules of the People's Republic of China (《中華人民共和國外資銀行管理條例》) on September 30, 2019. The financing and banking industries may be further opened up in the future, and the competition between domestic banks and foreign financial institutions may be more fierce.

Despite the competition and challenges as mentioned above, in the last decade, PRC's commercial banks have managed to maintain their steady growth primarily driven by steady macroeconomic growth in PRC. The following table sets forth certain information of PRC's commercial banks as of the dates or for the periods indicated:

	As of and for the year ended December 31,						CAGR
	2014	2015	2016	2017	2018	2019	(2014-2019)
Total assets (in billions of RMB)	134,798	155,826	181,688	196,783	209,964	239,488	12.2%
Total liabilities (in billions of RMB)	125,093	144,268	168,592	182,061	193,488	220,054	12.0%
Net profit (in billions of RMB)	1,555	1,593	1,649	1,748	1,830	1,993	5.1%
Return on assets (%)	1.23	1.10	0.98	0.92	0.90	0.87	N/A
Allowance coverage ratio (%)	232.06	181.18	176.40	181.42	186.31	186.08	N/A
NPL ratio (%)	1.25	1.67	1.74	1.74	1.83	1.86	N/A

Source: CBIRC

The following table sets forth the total assets of different types of financial institution (banks) in the PRC as of the dates indicated:

	As of December 31,						CAGR
	2014	2015	2016	2017	2018	2019	(2014-2019)
	(RMB billion)						
Large commercial banks[1]	71,014	78,163	86,598	92,815	98,353	116,777	10.5%
Joint-stock commercial banks	31,380	36,988	43,473	44,962	47,020	51,782	10.5%
City commercial banks	18,084	22,680	28,238	31,722	34,346	37,275	15.6%
Rural financial institutions[2]	22,117	25,657	29,897	32,821	34,579	37,216	11.0%
Other financial institutions[3]	29,741	35,857	44,047	50,085	53,942	46,953	9.6%
Total	**172,336**	**199,345**	**232,253**	**252,404**	**268,240**	**290,003**	**11.0%**

Source: CBIRC

Notes:

(1) Since 2019, Postal Saving Bank of China Co Ltd., has been categorized under the "large commercial banks" category, and between 2014 to 2018 it was categorized under the "other financial institutions" category.

(2) Comprises rural commercial banks, rural credit cooperatives and new rural financial institutions.

(3) Comprises policy banks and China Development Bank, private banks, foreign banks, non-bank financial institutions and asset management companies.

City Commercial Banks

City commercial banks are banks with branches at the municipal or higher levels, established under the PRC Company Law and the PRC Commercial Banking Law from predecessor urban credit cooperatives with the approval of the CBIRC. According to the CBIRC, as of December 31, 2019, there were 134 city commercial banks in PRC. City commercial banks have played active roles in maintaining regional financial stability, promoting market competition, facilitating access to financial services, and easing funding pressures for micro and small enterprises. According to the CBIRC, the total assets of PRC city commercial banks increased from RMB18.1 trillion as of December 31, 2014 to RMB37.3 trillion as of December 31, 2019, representing a CAGR of 15.6%.

In addition, with in-depth understanding of local markets and close relationships with local customers, city commercial banks are generally well-positioned to capture opportunities and market trends in local areas. The following table sets forth certain information relating to city commercial banks in PRC as of the dates or for the periods indicated:

	As of and for the year ended December 31,						CAGR
	2014	2015	2016	2017	2018	2019	(2014-2019)
Total assets (in billions of RMB)	18,084	22,680	28,238	31,722	34,346	37,275	15.6%
Total liabilities (in billions of RMB)	16,837	21,132	26,404	29,534	31,825	34,497	15.4%
Net profit (in billions of RMB)	186	199	224	247	246	251	6.2%
Return on assets (%)	1.12	0.98	0.88	0.83	0.74	0.70	N/A
Allowance coverage ratio (%)	249.33	221.27	219.89	214.48	187.16	153.96	N/A
NPL ratio (%)	1.16	1.40	1.48	1.52	1.79	2.32	N/A

Source: CBIRC

SHANDONG PROVINCE'S BANKING INDUSTRY

The banking industry in Shandong Province has experienced rapid growth along with the development of Shandong Province's economy. According to the CBIRC Shandong Office, the total deposits of the financial institutions in the banking industry of Shandong Province increased at a CAGR of 11.5% from RMB5,005 billion as of December 31, 2014 to RMB8,633 billion as of December 31, 2019. At the same time, the total loan of the financial institutions in the banking industry in Shandong Province increased at a CAGR of 9.2% from RMB6,749 billion as of December 31, 2014 to RMB10,474 billion as of December 31, 2019.

The table below sets forth the total assets and liabilities, total deposits and loans, etc., of financial institutions in the banking industry of Shandong Province as of the dates indicated:

	As of December 31,						CAGR
	2014	2015	2016	2017	2018	2019	(2014-2019)
Total deposits (in billions of RMB)	6,915	7,680	8,568	9,102	9,641	10,474	8.7%
Total loans (in billions of RMB)	5,366	5,906	6,524	7,087	7,781	8,633	10.0%
Total assets (in billions of RMB)	8,668	9,703	10,992	11,489	12,162	13,152	8.7%
Total liabilities (in billions of RMB)	8,364	9,369	10,626	11,108	11,767	12,715	8.7%
Number of institutions	14,604	15,611	15,606	15,662	15,602	15,198	N/A
Number of employees	240,885	247,386	248,782	248,415	246,663	244,377	N/A
Legal person institutions	235	253	278	281	281	281	N/A

Source: CBIRC Shandong Office

The following table sets forth certain financial information relating to city commercial banks in Shandong Province as of the dates indicated:

	As of and for the year ended December 31,						CAGR
	2014	2015	2016	2017	2018	2019	(2014-2019)
Total assets (in billions of RMB)	1,034.0	1,285.3	1,594.0	1,774.1	1,898.2	2,198.71	16.3%
Total liabilities (in billions of RMB)	958.5	1,192.5	1,488.3	1,642.3	1,750.8	2,034.0	16.2%
Total equity (in billions of RMB)	75.5	92.8	105.7	131.8	147.4	164.7	16.9%
Net profit (in billions of RMB)	10.5	11.3	12.1	12.7	9.8	12.0	2.7%
Return on assets (%)	1.1	0.98	0.84	0.75	0.53	0.58	N/A
Coverage ratio (%)	225.04	204.68	201.46	155.71	142.14	165.48	N/A
NPL ratio (%)	1.48	1.74	1.67	2.03	2.07	1.78	N/A

Source: CBIRC Shandong Office

The following table sets forth certain information relating to various types of financial institutions in Shandong Province as of December 31, 2019:

	As of December 31, 2019		
	Number of institutions	Number of employees	Number of legal institutions
Large commercial banks[(1)]	4,267	96,996	–
Joint-stock commercial banks	1,026	23,885	–
City commercial banks	1,371	30,850	14
Rural financial institutions[(2)]	5,409	73,346	240
Other financial institutions[(3)]	3,125	19,300	27
Total	**15,198**	**244,377**	**281**

Source: CBIRC Shandong Office

Notes:

(1) Since 2019, Postal Saving Bank of China Co Ltd. has been categorized under the "large commercial banks" category, and between 2014 to 2018 it was categorized under the "other financial institutions" category.

(2) Comprises rural commercial banks, rural credit cooperatives and new rural financial institutions.

(3) Comprises policy banks and China Development Bank, private banks, foreign banks, non-bank financial institutions and asset management companies.

WEIHAI CITY'S BANKING INDUSTRY

The table below sets forth the total deposits and loans, number of institutions, employees and legal person institutions of financial institutions in the banking industry of Weihai City as of the dates indicated:

	As of December 31,						CAGR
	2014	2015	2016	2017	2018	2019	(2014-2019)
Total loans (in billions of RMB)	174	184	190	222	252	288	10.6%
Total deposits (in billions of RMB)	263	279	311	338	368	425	10.1%
Total assets (in billions of RMB)	331.7	397.6	438.3	481.8	498.0	555.4	10.9%
Total liabilities (in billions of RMB)	317.2	380.9	420.7	460.3	472.7	526.8	10.7%
Total equity (in billions of RMB)	16.5	16.7	17.6	21.5	25.2	28.6	11.6%
Net profit (in billions of RMB)	2.9	2.7	2.8	3.8	3.5	3.8	5.6%
Number of institutions	574	579	637	664	513	506	N/A
Number of employees	9,495	9,781	9,790	9,920	9,845	9,849	N/A
Legal person institutions	8	9	9	10	10	10	N/A

Source: CBIRC Weihai City Office

The following table sets forth certain information relating to various types of financial institutions in Weihai City as of December 31, 2019:

	December 31, 2019		
	Number of institutions	Number of employees	Number of legal institutions
Large commercial banks[(1)]	167	3,677	–
Joint-stock commercial banks	45	925	–
City commercial banks	70	1,939	1
Rural financial institutions[(2)]	197	2,493	8
Other financial institutions[(3)]	27	815	1
Total	**506**	**9,849**	**10**

Source: CBIRC Weihai City Office

Notes:

(1) Since 2019, Postal Saving Bank of China Co Ltd. has been categorized under the "large commercial banks" category, and between 2014 to 2018 it was categorized under the "other financial institutions" category.

(2) Comprises rural commercial banks, rural credit cooperatives and new rural financial institutions.

(3) Comprises policy banks and China Development Bank, private banks, foreign banks, non-bank financial institutions and asset management companies.

IMPACT OF COVID-19 OUTBREAK

In view of this unprecedented health crisis, as the PRC's economy is grappling with the effects of the COVID-19 outbreak, PRC's GDP contracted by 6.8% in the first quarter of 2020 when compared with the same period of 2019 while its output shrank by 9.8% when compared with the fourth quarter of 2019. Retail spending, which contributed approximately 57.8% of PRC's economic growth in 2019, plunged by 19.0% in the first quarter of 2020 as compared with the same period of 2019. Similarly, industrial production, fixed-asset investment, international trade, all fell 8.4%, 16.1%, 6.4%, respectively, in the first quarter of 2020 when compared with the same period of 2019. These contractions came as efforts from the PRC Government to curb the spread of COVID-19 which have kept most people across PRC indoors, shops and restaurants shut during the first quarter of 2020 as well as suspended a good proportion of economics activities, which inevitably caused enterprises to delay production and resumption of works. It is expected that the economic growth will slow in the PRC in 2020, especially the first half of 2020, as the PRC's economy continues to deal with the effects of the COVID-19 outbreak.

In order to counter the impact of the COVID-19, the PRC Government has introduced a wide range of fiscal and monetary easing initiatives and supportive measures with the aim of encouraging banks and financial institutions to enhance their credit support to affected enterprises and individuals and to try to cushion the economic blow from the pandemic. Such initiatives and supportive measures include:

- On March 1, 2020, CBIRC, PBoC and other PRC regulatory authorities jointly issued the Notice on Temporary Deferment of Repayment on Principal and Interest for Loans to Micro and Small Enterprises (Yin Bao Jian Fa [2020] No. 6)《關於對中小微企業貸款實施臨時性延期還本付息的通知》(銀保監發[2020]6號) (the "**March 1 Notice**"), according to which, qualified micro and small enterprises facing temporary liquidity difficulties due to the COVID-19 outbreak can make applications with banks to defer repayment of principal and interest expenses payable from January 25 to June 30, 2020 (the "**Due Date**"), and overdue loan repayments during the relevant period will not be subject to penalties. As of Latest Practicable Date, the Due Date has been extended to March 31, 2021 by the relevant PRC regulatory authorities;
- On March 13, 2020, PBoC announced that it would reduce the amount of cash that some of the banks are required to hold as a reserve at the central bank and it was estimated that this would release around RMB550 billion in liquidity into the interbank market. In addition, the reserve requirement ratio (the "**RRR**") would be cut by 50 -100 basis points for qualified banks. Qualified joint-stock commercial banks would enjoy an additional cut of 100 basis points. The cuts are aimed at smaller banks to encourage them to lend to micro, small and medium enterprises during this unprecedented health crisis and at the time, PBoC has urged lenders to extend affordable loans and tolerate late payments from borrowers hit by the health crisis;
- On April 3, 2020, PBoC further announced that it would cut the targeted RRR by another 100 basis points for small and mid-sized lenders, including rural banks, village and township banks and city commercial banks. The adjustment will be implemented in two stages, that is 50 basis points cut on April 15, 2020 and another 50 basis points cut on May 15, 2020. PRC has about 4,000 small and mid-sized banks. The latest cuts would lower their RRR to 6.0%. It was estimated that this would release around RMB400 billion in liquidity into the interbank market to shore up the economy which has been jolted by the COVID-19 pandemic. In addition, the interest rate on financial institutions' excess reserves with the central bank would be reduced from 0.72% to 0.35%, effective from April 7, 2020. This would encourage the banks to invest their excess cash balances elsewhere.

As of Latest Practicable Date, the COVID-19 outbreak was under containment in the PRC and the PRC's economy is expected to grow less than 5.0% in 2020, as compared with 6.1% in 2019, according to estimates by the Organization for Economic Co-operation and Development (OECD). Nevertheless, in observation of the complex international trade situation in recent years and the outbreak of COVID-19 pandemic, PRC banking financial institutions are facing an increasingly challenging market environment, and in terms of business operation, they may face the risk of rising customer credit risk and declining asset quality.

RECENT DEVELOPMENT IN THE PRC BANK

The PBoC and the CBIRC took over control of Baoshang Bank due to its severe credit risk exposure on May 24, 2019, while the H shares of Bank of Jinzhou Co., Ltd. was suspended from trading in April 2019 and resumed trading on September 2, 2019. Although there still are concerns over liquidity in the interbank market, especially after the takeover of Baoshang Bank, PRC's economy remained stable when the government continued to deepen its supply-side structural reform that focused on deleveraging, preventing systematic risks and improving the quality of economic growth. To enhance banking system stability, the PBoC also established the Deposit Insurance Fund Management Co., Ltd. (the "**Deposit Insurance Fund**") on May 24, 2019, with a registered capital of RMB10.0 billion, to protect depositors' savings with financial institutions. The Deposit Insurance Fund is devoted to insuring the deposits of individuals by setting aside funds to compensate individuals for their loss due to the failure of a financial institution. In addition, the Deposit Insurance Fund could inject capital into a bank, acquire liabilities of a bank and explore a market-based financial risk disposal mechanism.

Recently, the PBoC and the CBIRC announced policy to support and encourage small and medium-sized banks to further improve corporate governance and risk mitigation capability. For example, the PBoC utilized targeted tools, such as targeted medium-term lending facilities, to direct funding to certain commercial banks to facilitate lending to micro and small enterprises. With such a steady stream of affordable financing, the city commercial banks can further improve their liquidity, capital conditions and risk mitigation capabilities, and focus on their core business and advantages to better serve micro and small enterprises and local residents. The PBoC also offers other credit enhancement such as, providing guarantees through credit risk mitigation warrant to support interbank deposits issued by small to medium-sized banks, increasing rediscount and standing lending facility quotas to ease liquidity concerns on the interbank market, as well as expanding collateral options by accepting interbank certificates of deposit and bank bills as collateral to improve funding access.

City commercial banks have been strengthening their capital base through the introduction of strategic investors, including via state-backed capital injections, and initial public offerings. Such strategic investments are expected to further improve city commercial banks' corporate governance and their ability to manage and mitigate risks, and drive its future development. In addition, some city commercial banks have started to expand into new services and products, such as consumer finance services and financial leasing services. Guided by prevailing regulatory policies, city commercial banks are encouraged to pursue differentiated business model and strategies, take advantage of being small and nimble, and provide a wider range of financial services that cater to the needs of micro and small enterprises and local residents.

In addition, since early 2020, there have been outbreak of the COVID-19 over the world, including China. The PRC Government has introduced a wide range of fiscal and monetary easing initiatives aimed at countering the impact of the COVID-19 pandemic, including encouraging banks and financial institutions to enhance their credit support to affected enterprises and individuals. On February 15, 2020, CBIRC announced that it may raise regulatory tolerance of banks' non-performing loans to businesses facing liquidity difficulties due to COVID-19. In addition, on March 1, 2020, CBIRC, PBoC and other PRC regulatory authorities jointly issued the Notice on Temporary Deferment of Repayment on Principal and Interest for Loans to Micro and Small Enterprises (Yin Bao Jian Fa [2020] No. 6)《關於對中小微企業貸款實施臨時性延期還本付息的通知》(銀監發[2020]6號), according to which, qualified micro and small enterprises facing temporary liquidity difficulties due to the outbreak of the COVID-19 can make applications with banks to defer repayment of principal and interest expenses payable from January 25 to June 30, 2020, and overdue loan repayments during the relevant period will not be subject to penalties. More measures are expected if there is any adverse development in the containment in the outbreak.

COMPETITIVE LANDSCAPE

As a city commercial bank mainly operate and based in Shandong Province, we mainly compete with other commercial banking institutions with operations in Shandong Province. As of December 31, 2019, our total assets, total deposits from customers, total loans to customers and total equity were RMB224,636 million, RMB142,201 million, RMB92,452 million and RMB17,924 million, respectively. In 2019, our net profit was RMB1,524 million. According to PBoC, we ranked third among all city commercial banks headquartered in Shandong Province in terms of total assets, total deposits from customers and total loans to customers and as of December 31, 2019.

As of December 31, 2019, Shandong Province had 14 city commercial banks. The table below sets forth key performance indicators of our Bank as compared to other top five city commercial banks in Shandong Province in terms of total assets as of December 31, 2019.

	As of December 31, 2019							
	Total assets	Total liabilities	Total equity	Total loans	Total deposits	NPL ratio	Number of institutions	Number of employees
	(in millions of RMB)							
Qingdao Bank(1)	373,622	343,144	30,478	172,795	212,791	1.65%	141	4,117
Qilu Bank(1)	307,520	284,864	22,656	140,264	208,011	1.49%	148	3,467
Our Bank(1)	224,636	206,712	17,924	92,452	142,201	1.80%	119	2,973
Weifang Bank(1)	144,348	134,308	10,040	66,547	102,940	1.78%	106	2,487
Qishang Bank(1)	131,851	118,745	13,106	81,388	110,704	1.80%	126	n/a(2)
Yantai Bank(1)	103,839	97,734	6,105	46,303	66,147	2.97%	83	1,780

Sources: Annual report of respective banks.

Notes:

(1) Total assets, total liabilities, total loans and total deposits are prepared by each bank according to PRC GAAP, which may differ from IFRS financial statement. Total equity was calculated by deducting total liabilities from total assets.

(2) There was no publicly available and reliable information of the Latest Practicable Date.

In addition to the above commercial banks, we also face challenges from Fintech-based financial service providers as well as Online Banks in the PRC (such as WeBank, MYbank, AiBank, and China Citic Bank Corp Ltd). As of March 31, 2020, our branch network only covers Shandong Province and Tianjin Municipality. The financial services provided by the internet-based and Fintech-based financial service providers as well as those Online Banks are virtual and not constrained by geography, unlike us, which has geographical limitations. Often, the services provided by those internet-based and Fintech-based financial service providers, Online Banks can be launched nationwide and therefore their customer base is not limited by territorial boundaries. We will need to submit applications to regulatory authorities if we plan to establish branches and sub-branches in areas outside Shandong Province. In addition, the CBIRC restricts city commercial banks from establishing branches and sub-branches outside of their home regions without specific approval.

Furthermore, with the rapid development of internet and information technologies of those financial institutions and Online Banks, internet financial products including online and mobile wealth management products, and third-party payment have grown significantly. Mobile payment has become increasingly popular in the PRC. In the meantime, Fintech-based financial service provider have grown remarkably in the PRC in recent years. These Fintech-based financial service providers provide types of online financial services and bring in innovative service models which lower the threshold and the cost of providing financial services for the public. As the development of financial technology offers more choices to the public and reduces cost of certain financial services, it brings certain challenges to commercial bank like us. In particular, partly as a result of the negative impact from COVID-19 outbreak and relevant quarantine and social distance policies adopted by PRC Government, for the three months ended March 31, 2020, internet-based services and corresponding financial services experienced strong growth notwithstanding decrease in general economy activities.

INDUSTRY TRENDS AND BUSINESS DRIVERS

Economic Growth in PRC and Shandong Province

The business expansion of banking financial institutions is affected by the market demand for financial products and services, which in turn is driven by the general economic condition in PRC, particularly in regions where their branch network operates. Although PRC's economy has entered into the "New Normal" stage during the recent period, leveraging Shandong Province's strategic geographic location and favourable PRC national strategies and policies as mentioned in the preceding section, Shandong Province has continued to experience steady growth in recent years.

We are of the view that the economy of Shandong Province will continue to grow in the near future, resulting in a continued increase in market demand for banking products and services, including the products and services of our corporate banking, retail banking and financial markets businesses. Please also see the sections headed "Business — Our Competitive Strengths" and "Risk Factors — Risks Relating to Our Business — If we are unable to effectively maintain the quality and growth of our assets, our financial condition and results of operations may be materially and adversely affected".

Evolving Regulation and Supervision

In recent years, the PBoC and the CBIRC have promulgated a series of regulations to enhance the regulation and supervision of PRC's banking industry and cultivate an orderly market for competition. These regulations aim to, among other things, strengthen supervision over capital adequacy, enhance risk management, improve modern corporate governance and further enhance the capacity of commercial banks to offer financial services to real economy. For details of relevant regulations, please see the section headed "Supervision and Regulation". Key requirements of relevant regulations include:

- Risk Management Improvement. The PRC banking regulatory institutions launched various rules and regulations to enhance the overall risk management capacity of commercial banks, with specific requirements on timely identification and accurate prediction of risks associated with changes in business model and structure, continuous improvement in overall risk management strategy, and enhancement of risk mitigation capacity through utilizing various capital market instruments.

- Stringent Management on Business Operations. Recent regulatory development focused on financial markets business, including: (i) encouraging banking institutions to optimize loan portfolio and improve credit support to the real economy, and (ii) taking measures to reduce financing costs of the real economy and simplify structure of financial products through decreasing the number of entities involved in fund flow.
- Enhancement in Corporate Governance. Regulatory focus in corporate government is set upon improvement in structure of management covering entire entity, equity and the operations of board of directors and board of supervisors.
- Encouraging Capital Replenishment. In February 2019, the State Council issued policies supporting commercial banks' capital replenishment through multiple channels. The State Council has outlined a raft of measures for commercial banks, including raising the efficiency of examination and approvals for the issuance of perpetual bonds, reducing the threshold for the approval of preferred stock and convertible bonds, and allowing those banks that satisfy the relevant requirements to issue multiple forms of capital supplementation instruments. In addition, these policies encourage funds, annual funds and other long-term investors to participate in the capital replenishment and share expansion of banks, support investments by the wealth management subsidiaries of commercial banks in bank capital supplementation bonds, and encourage foreign financial institutions to participate in bond market transactions.

With the continuous development of the regulatory environment, particularly the trend manifested in the above mentioned rules and regulations, we expect that financial institutions in PRC, including commercial banks, will keep optimising asset quality and improving risk management system.

Deepening of the Interest Rate Liberalization

In the PRC, interest rates on RMB-denominated loans and deposits are set by the financial institution with reference to the benchmark interest rates on loans and deposits published and adjusted from time to time by PBoC. In recent years, as part of the government's efforts to reform the financial system to support a balanced and sustainable growth, PRC has implemented a series of initiatives to move towards market-based lending and deposits rates.

In July 2013, the PBoC abolished the floor rates for RMB-denominated loans (excluding interest rates on residential mortgage loans). In October 2015, the PBoC removed the cap on deposit interest rates for commercial banks. Effective on May 1, 2015, the Deposit Insurance Regulations (《存款保險條例》) of the PRC paved the way for a smooth establishment of a deposit insurance system in PRC which would thereby push ahead the liberalization of the interest rate mechanism. Furthermore, in August 2019, the PBoC announced to reform the mechanism used to establish the loan prime rate ("**LPR**"). According to the PBoC, commercial banks must set interest rates on new loans by mainly referring to the LPR and use LPR as the benchmark for setting floating loan interest rates.

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

Increasingly Importance of City Commercial Banks in the PRC

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

In recent years, city commercial banks have been strengthening their capital base through the introduction of strategic investors and initial public offerings. In addition, some city commercial banks have, in accordance with regulations, begun developing integrated operations business models, for example establishing consumer finance companies and financial leasing companies. According to the CBIRC, between 2014 and 2019, each of the total assets, total liabilities and shareholders' equity of city commercial banks grew at a CAGR of 15.6%, 15.4% and 17.4%, higher than the corresponding CAGR of all PRC commercial banks of 12.2%, 12.0%, and 14.9%. Total assets of all city commercial banks in PRC as a percentage of the total assets of all PRC commercial banks in PRC increased from 13.4% as of December 31, 2014 to 15.6% as of December 31, 2019.

Challenges and Opportunities for Banks Arising from Internet Finance

In recent years, Internet-based financial service companies are developing rapidly in PRC. At present, the major financial services provided by PRC'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, PRC's banking financial institutions are facing the challenges with respect to products, technologies and customer experience.

PRC's banking industry has capitalised 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 utilising big data technology. By integrating their physical networks and services with 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, 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 PRC 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.

Increasing Demand for Customised Retail Banking Products and Services

With the rapid growth of the PRC economy, the per capita income of domestic residents in PRC has been increasing in the past three decades. According to the NBS, per capita disposable income of urban households in PRC increased from RMB28,844 in 2014 to RMB42,359 in 2019, which indicates the growing consumption of domestic residents.

As a result of accumulated personal wealth of domestic residents, customers in PRC have been looking for more diversified personal financial products and services. There have been significant growth opportunities in the PRC personal finance market due to the increasing consumer demand for more diversified retail banking products and services, such as residential mortgage loans, credit cards, wealth management services, personal consumer loans and other consumer finance products. We believe that providing quality and customized products and services to retail banking customers will be the significant driving force of our retail banking business.

Increasing Importance of Banking Services to Micro and Small Enterprises

A huge number of micro and small enterprises in the PRC have been playing an increasingly significant role in the economic growth. To better facilitate the development of small and micro enterprises and meet their financing demands, the State Council, the PBoC and the CBIRC have taken measures to encourage financial institutions to offer innovative financial products and credit services to them including (i) encouraging financial institutions to expand their distribution network and offer broader coverage and higher-quality services; (ii) lowering reserve ratio. In order to increase the liquidity of commercial banks and encourage the extension of credit to micro and small enterprises, effective from June 16, 2014, the PBoC lowered the RMB deposit reserve ratio by an additional 1.5% for commercial banks that meet specific operating requirements and have extended a specified percentage of loans to borrowers in the "agricultural industry" sector or micro and small enterprises; (iii) offering interest income tax reduction policies for inclusive loans issued by banks; and (iv) encouraging banking institutions to put more efforts in designing tailor-made financial products that specifically meet small and micro enterprises' financing needs, for example, adjusting the maturity of the products that matches the cash flow of micro and small enterprises.

The former CBRC promulgated the Notice on Improving and Innovating Loan Services for Micro and Small Enterprises and Enhancing Financial Services for Micro and Small 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》 in July 2014, the State Council issued the Opinions of the State Council on Supporting the Sound

Development of Micro and Small Enterprises 《國務院關於扶持小型微型企業健康發展的意見》 in October 2014, the former CBRC issued the Notice on Further Implementing Financial Service Supervising Policy of Micro and Small Enterprises 《關於進一步落實小微企業金融服務監管政策的通知》 in June 2015, and the State Council further promulgated the Plan for Promoting Inclusive Finance (2016-2020)《推進普惠金融發展規劃(2016-2020年)》in December 2015. After the introduction of the aforementioned series of policies, it is expected that the business position of micro and small enterprise banking services in the banking industry will become increasingly important.

OVERVIEW

The banking industry in the PRC is highly regulated. The current principal regulatory authorities of the PRC banking industry include the CBIRC and the PBoC. The CBIRC is responsible for supervising and regulating banking institutions. The PBoC, as the central bank of the PRC, is responsible for formulating and implementing monetary policies and preparing drafts of important laws and regulations in the banking industry and prudently regulating basic systems. The laws and regulations applicable to the PRC banking industry mainly include Commercial Banking Law of the People's Republic of China (2015 Amendment) (《中華人民共和國商業銀行法(2015修正)》) ("Commercial Banking Law"), Law of the People's Republic of China on the People's Bank of China (2003 Amendment) (《中華人民共和國中國人民銀行法(2003修正)》) ("PBoC Law") and Banking Supervision and Regulatory Law of the People's Republic of China (2006 Amendment) (《中華人民共和國銀行業監督管理法(2006修正)》), and relevant regulations, rules and normative documents established thereunder.

PRINCIPAL REGULATORS

PBoC

As the central bank of the PRC, the PBoC is responsible for formulating and implementing monetary policies and maintaining the stability of the PRC financial markets. According to the PBoC Banking Law and relevant provisions, the PBoC shall perform the following functions and responsibilities: (1) to promulgate and carry out the orders and regulations related to its functions and responsibilities; (2) to formulate and implement monetary policies in accordance with law; (3) to issue Renminbi (RMB) and control its circulation; (4) to supervise and administer the interbank lending market and the interbank bond market; (5) to exercise control of foreign exchange and supervise and administer the interbank foreign exchange market; (6) to supervise and administer the gold market; (7) to hold, administer and manage the state foreign exchange reserve and gold reserve; (8) to manage the state treasury; (9) to maintain the normal operation of the system for making payments and settling accounts; (10) to guide and make plans for the fight against money laundering in the financial industry, and to be responsible for monitoring the use of the funds earmarked for the fight against money laundering; (11) to be responsible for statistics, investigation, analysis and forecasting concerning the financial industry; (12) to engage in relevant international financial operations in its capacity as the central bank of the state; and (13) other functions and responsibilities prescribed by the State Council.

According to the Institutional Reform of the State Council (2018) (《國務院機構改革方案(2018)》), the duties of the former CBRC and the former CIRC to prepare drafts of important laws and regulations in the banking industry and insurance industry and prudently regulate basic systems have been transferred to the PBoC.

CBIRC

Functions and Powers

Established by merging the former CBRC and former CIRC, the CBIRC is an institution directly under the State Council, and is now the principal regulatory authority for financial institutions of the banking industry in the PRC, responsible for the supervision and regulation of banking institutions operating in the PRC, including commercial banks, urban credit cooperatives, rural credit cooperatives and other financial institutions taking deposits from the public, policy banks and certain non-banking financial institutions. The CBIRC is also responsible for the supervision and regulation of the entities established by the above-mentioned financial institutions outside the PRC and the overseas operations of the above-mentioned banking and non-banking financial institutions.

Examination and Supervision

The CBIRC, through its headquarters in Beijing and its local offices throughout the PRC, monitors the operations of banks and their branches and sub-branches through on-site examinations and off-site surveillance.

If a banking institution is not in compliance with the relevant banking regulations, the CBIRC is authorized to require it to rectify and impose punitive measures against it, including imposing fines, ordering the suspension of certain business activities, withholding the approval for engaging in new businesses, imposing restrictions on dividends, distributions in other forms, and transfer of assets, demanding the transfer of equity interest held by controlling shareholders or limiting the exercise of such shareholders' rights, demanding the change of directors or senior management personnel or limiting their rights, and withholding the approval for the opening of new branches and sub-branches. If the case is particularly serious, or the banking institution fails to make correction within the prescribed period of time, the CBIRC may order suspension of business or revocation of its operation license. When there is, or is likely to be, a credit crisis within a banking institution, which may materially impact the legitimate interests of depositors and other customers, the CBIRC may take over or procure the restructuring of such banking institution.

Other Regulatory Authorities

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

REQUIREMENTS FOR ADMISSION TO THE INDUSTRY

Basic Requirements

The establishment of a city commercial bank requires the CBIRC's approval and issuance of a business operation license. Pursuant to the relevant provisions of Commercial Banking Law and Implementation Measures of the CBIRC on Administrative Licensing on Chinese-Funded Commercial Banks (2018 Amendment) (《中國銀保監會中資商業銀行行政許可事項實施辦法(2018修正)》), an applicant for the establishment of a city commercial bank will generally meet the following conditions: (1) it has the articles of association in compliance with Company Law of the People's Republic of China (《中華人民共和國公司法》) and Commercial Banking Law of the People's Republic of China; (2) its registered capital is paid-in capital, the minimum amount of which is RMB1 billion or an equivalent in any convertible currency. The minimum amount of registered capital of an institution with a legal person status of a city commercial bank is RMB100 million; (3) it has directors and senior management personnel who are qualified to hold office and qualified personnel who are familiar with the banking business; (4) it has a sound organizational structure and complete management rules; (5) it has business premises, safety protection measures and other facilities commensurate with its operations; and (6) it has established an information technology framework commensurate with its operations, has necessary, safe and compliant information technology systems to support its operations, and has technologies and measures to ensure the effective and safe operation of the information technology systems.

Significant Changes

City commercial banks are required to obtain approval from the CBIRC or its local offices to undertake significant changes, including: opening, upgrading or closing a branch or sub-branch; change of name of headquarters, a branch or sub-branch; change of registered capital; change of domicile of headquarters, a branch or a sub-branch; change of business scope; change of form of organization; change of shareholders holding 5% or more of the bank's total capital or shares; qualification licensing of directors and senior management; investments in the equity interest in a bank by an overseas financial organization; investment in the establishment of, participation in the share capital of or acquisition of a domestic legal person financial institution or an overseas organization; amendments to the articles of association; merge and acquisition; dissolution and bankruptcy.

Scope of Business

According to relevant provision of Commercial Banking Law, commercial banks are permitted to engage in the following activities: (1) taking deposits from the public; (2) extending short-term, medium-term and long-term loans; (3) effecting domestic and overseas payment settlements; (4) accepting and discounting instruments; (5) issuing financial bonds; (6) acting as the issuing agent, payment agent and underwriter of government bond; (7) trading government bonds and financial bonds; (8) engaging in interbank lending; (9) trading foreign exchange as principal or agent; (10) engaging in bank card business; (11) providing letters of credit and guarantee services; (12) collecting and making payment as agents and acting as insurance agents; (13) providing safe deposit box service; (14) other businesses approved by the banking regulatory authorities under the State Council.

The commercial banks' scope of business shall be provided in their articles of association, which shall be reported to the banking regulatory authorities under the State Council for approval. Meanwhile, subject to approval by the PBoC, commercial banks may engage in settlement and sales of foreign exchange.

Establishment of Branches and Sub-branches

According to Implementation Measures of the CBIRC on Administrative Licensing on Chinese-Funded Commercial Banks (2018 Amendment), to establish a branch, the headquarters of a city commercial bank shall submit applications to provincial offices of the CBIRC at the place where the branch is to be established; to establish a sub-branch, the headquarters of a city commercial bank shall submit applications to municipal offices of the CBIRC at the place where the sub-branch is to be established or provincial offices at its location.

EQUITY AND SHAREHOLDER RESTRICTIONS

Regulations on Equity Management of Banks

The Interim Measures for Management of Commercial Bank Equity (《商業銀行股權管理暫行辦法》) issued by the former CBRC on January 5, 2018 specifies that the relationships among commercial banks' shareholders and their controlling shareholders, actual controlling persons, related parties, concert parties and ultimate beneficiaries shall be clear and transparent; the shareholding percentage of shareholders and their related parties and concert parties shall be calculated together.

Restrictions on Shareholders

The Guidance on Corporate Governance of Commercial Banks (《商業銀行公司治理指引》) imposes additional requirements on shareholders of commercial banks. For example, shareholders, especially substantial shareholders, are required to support the reasonable capital planning formulated by the board of directors of a commercial bank so that the capital of the bank can meet the regulatory requirements on an on-going basis. If the capital of a commercial bank fails to meet the regulatory requirements, it is required to develop a capital replenishment plan to increase capital adequacy ratio to meet regulatory requirements within a specified period of time, and its capital is required to be replenished by means of increasing core capital.

Substantial shareholders cannot obstruct capital injection by other shareholders or the participation of new qualified shareholders. If shareholders, especially substantial shareholders, of a commercial bank fail to repay outstanding loans when overdue, the voting rights of such shareholder at the shareholders' general meetings, as well as the voting rights of the director(s) designated by such shareholder at board meetings, shall be subject to restrictions.

The Notice of the CBRC on Strengthening Equity Pledge Administration promulgated by the former CBRC (《中國銀監會關於加強商業銀行股權質押管理的通知》) in November 2013 specifies that in addition to the provisions of Guidance on Corporate Governance of Commercial Banks above, a commercial bank shall specify in its articles of association: (1) a shareholder holding the position of director or supervisor of the bank, or directly, indirectly or jointly holding or controlling 2% or more shares or voting rights of the bank that proposes to pledge its shares of the bank shall make a filing to the board of directors of the bank prior to the pledge. The filing shall state the basic information of the pledge, including the reasons for the pledge, the number of shares involved, the term of pledge and the particulars of the pledgee(s). If the board of directors considers the pledge to be materially adverse to the stability of the bank's shareholding structure, the corporate governance as well as the control of risk and related party transactions, the filing shall be rejected. The director(s) nominated by a shareholder proposing to pledge its shares in the bank shall abstain from the voting at the meeting of the board of directors at which such proposal is considered; (2) upon the registration of pledge of equity, the shareholder involved shall provide the bank with the relevant information in relation to the pledge of equity in a timely manner, so as to facilitate the bank's risk management and information disclosure compliance; (3) where the balance of a shareholder's borrowings in the bank exceeds the audited net value of its equity in the bank in the previous year, the shareholder shall not pledge the bank's equity; and (4) when a shareholder pledges 50% or more of its equity in the bank, the voting rights of such shareholder at the shareholders' general meetings, as well as the voting rights of the director(s) designated by such shareholder at board meetings, shall be subject to restrictions. If a commercial bank is unable to meet the regulatory requirements, relevant regulators shall require the commercial bank to formulate a rectification plan, and will take corresponding regulatory measures where necessary.

In the Interim Measures for Management of Commercial Bank Equity (《商業銀行股權管理暫行辦法》), the PRC Government sets out further restriction on substantial shareholders of commercial banks in China, for example (1) substantial shareholders shall enjoy its rights and undertake its obligations in strict compliance with relevant laws, regulations, administrative policies and articles of association of the bank, and shall not abuse shareholders' rights or utilize their influence to intervene in the decision-making power and management power that the board of directors and the senior management are entitled to in accordance with the articles of association; (2) substantial shareholders shall not directly intervene in or utilize influence to intervene in the business operation and management of the commercial bank bypassing the board of directors and the senior management, conduct tunneling, or otherwise damage the lawful rights and interests of any depositor, the relevant bank or any other shareholder; (3) substantial shareholders of a commercial bank shall establish an effective risk isolation mechanism to prevent risk contagion and transfer among shareholders, the commercial bank and other affiliates; (4) substantial shareholders shall prevent conflict of interest by properly managing nomination of key positions in commercial banks and other related entities, including directors, supervisors or members of the senior management.

REGULATION ON PRINCIPAL COMMERCIAL BANKING ACTIVITIES

Loan Business

The Administrative Measure on Automobile Loans (《汽車貸款管理辦法》) issued by the PBoC and the former CBRC on August 16, 2004 and amended on August 4, 2015 and October 13, 2017 specifies that the term (including the extension period) of automobile loans shall not exceed five years. In particular, the term (including the extension period) of loans for second-hand vehicles shall not exceed three years and the terms of loans to automobile distributors shall not exceed one year.

The Guidelines on the Management of Risks of Real Estate Loans Granted by Commercial Banks (《商業銀行房地產貸款風險管理指引》) issued by the former CBRC on August 30, 2004 specifies that commercial banks shall set forth the risk policies on the real estate loans and the standards for operation and check of different types of loans, clarify the standards for examination and approval of different types of loans, the operational procedures, risk control, after-loan management, and selection of intermediary institutions, etc. Meanwhile, commercial banks are not allowed to grant land reserve loans to any borrower whose capital is not fully contributed or is seriously insufficient or whose management is irregular or grant any form of loans to any projects without the state-owned land use permit, construction land planning permit, planning permit for construction project and construction permit for construction project.

The Guidelines on Project Finance Business (《項目融資業務指引》) promulgated by the former CBRC on July 18, 2009 specifies that lenders shall require to set the project assets and/or expected return and other rights eligible for mortgage or pledge as guarantees for project finance loans, and if necessary, the equity of project companies held by project sponsors may be set as a pledge guarantee for loans. Lenders shall also require to be the claimants first in line to insurance compensation of the commercial insurance bought for projects or take other measures to effectively control rights of insurance indemnities. Lenders shall negotiate special accounts for project revenues with borrowers, require crediting all project revenues into the specified accounts and make payment to external parties according to the previously agreed terms and methods. Lenders shall conduct dynamic monitoring of project revenue accounts and promptly find out the causes and take corresponding measures in case of unusual capital movements.

The Interim Measures for the Administration of Fixed Asset Loans (《固定資產貸款管理暫行辦法》) promulgated by the former CBRC on July 23, 2009 provides that a lender shall improve the internal control mechanism, exercise management of the whole process of loans, fully know the information about the customers and projects, establish a system for the management of risks of fixed asset loans and an effective mechanism for check and balance of posts, clarify the loan management responsibilities of the concrete departments and posts and establish an evaluation and accountability mechanism for each post. The Measures also requires that commercial banks shall stipulate contents important to the control of loan risks in the contracts with borrowers and other related parties and establish a loan quality monitoring system and a loan risk warning system.

The Guiding Opinions on Further Supporting the Restructuring and Revitalization of Key Industries and Curbing Overcapacity in Certain Industries through Financial Services (《關於進一步做好金融服務支持重點產業調整振興和抑制部分行業產能過剩的指導意見》) promulgated by the PBoC, the former CBRC, CSRC and former CIRC on December 22, 2009 provides that for enterprises and projects that comply with the requirements of the plans for restructuring and revitalizing national key industries, meet market entry requirements and conform to the principles of bank credit, credit funds should be guaranteed to be granted in a timely and efficient manner. For projects that fail to comply with national industrial policies, market entry requirements and technical standards, and lack project capital, no credit support shall be provided. For projects in industries with overcapacity, loans shall be strictly examined and approved.

The Interim Measures for the Administration of Working Capital Loans (《流動資金貸款管理暫行辦法》) promulgated by the former CBRC on February 12, 2010 provides that lenders shall reasonably assess the borrower's working capital needs and prudently determine the total amount of working capital loan funds granted to the borrower and the limit of loan amount, and shall not grant working capital loans in excess of the borrower's actual needs. Commercial banks and borrowers shall clearly stipulate the legal uses of loans. Working capital loans shall not be used for investments in fixed assets, equity investments or fields or purposes where production or operation has been expressly prohibited by the state.

The Interim Measures for the Administration of Personal Loans (《個人貸款管理暫行辦法》) promulgated by the former CBRC on February 12, 2010 provides that personal loan agreements are required to specify the purpose of loan funds. The uses of personal loans shall comply with laws and regulations and relevant state policies. Commercial banks shall not extend personal loans with no designated purpose. Meanwhile, the term and interest rate of personal loans shall comply with relevant state regulations. The lender shall establish a control mechanism for maintaining a reasonable proportion between the borrower's income and the amount used to repay loan, reasonably determine the amount and term of a loan based on the borrower's income, debt, expenditure, uses of loan funds and guarantee status, and make sure that the repayment made by the borrower for each installment is within his ability to repay the loan.

The Guidelines on the Risk Management of Risks of Credits Granted by Commercial Banks to Group Borrowers (《商業銀行集團客戶授信業務風險管理指引》) promulgated by the former CBRC on June 4, 2010 requires that the credit balance of a commercial bank to a single group borrower shall not exceed 15% of its net capital; otherwise, the credit extended will be deemed as having exceeded its risk tolerance capacity. If the credit needs of a group borrower exceed the risk tolerance capacity of a bank, the commercial bank shall take measures to diversify the risks through syndicated loans, loan participation and loan transfer. In line with its prudent regulatory provisions, banking regulatory authorities may lower the ratio of the credit balance of a commercial bank to a single group borrower and net capital.

The Notice of the PBoC and CBRC on Issues Concerning the Improvement of Differentiated Housing Credit Policies (《中國人民銀行、中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知》) issued by the PBoC and the former CBRC on September 29, 2010 requires all commercial banks to suspend the granting of housing loans to families that purchase the third or more residential properties or to non-local residents who are unable to provide evidence of payments of local tax or social security of more than one year. Pursuant to the notice, for a first-time purchaser of any commercial housing property, the minimum down payment ratio is adjusted to 30% or more, while the minimum down payment ratio for a second home buyer is strictly imposed at not less than 50% of the purchase price with the interest rate being no less than 110% of PBoC benchmark interest rates on loans.

The Notice of CBRC on the Publication and Distribution of Green Credit Guidelines (《中國銀監會關於印發綠色信貸指引的通知》) issued by the former CBRC on February 24, 2012 requires banking financial institutions to effectively identify, measure, monitor and control environmental and social risks in the course of their credit business, and to establish the environmental and social risk exposure management systems. Banks are also required to explicitly declare their support and priority areas for green credit, formulate specific guidelines for granting credit facility to restricted industries and industries with material environmental and social risks, carry out flexible differentiated credit granting policies, and implement risk exposure management systems.

The Measures for Administration of Loans for Peasant Households (《農戶貸款管理辦法》) issued by the former CBRC on September 17, 2012 encourages rural financial institutions and other banking financial institutions which offer peasant household loans to develop agriculture-related loan business, work out relevant business strategies and strengthen their risk management ability in agriculture-related loans, and specify that peasant household loans should be used for purposes specified in laws, regulations and relevant state policies and banking financial institutions should not grant peasant household loans with no designated purpose.

The Notice of the General Office of the State Council on Further Regulation and Control of the Real Estate Market (《國務院辦公廳關於繼續做好房地產市場調控工作的通知》) issued by the General Office of the State Council on February 26, 2013 prohibits commercial banks from providing loans for new development projects to real estate developers which have illegal and non-compliance conduct such as hoarding idle land and participating in speculative land trading, withholding property units to limit sales and pushing up property prices. Meanwhile, banking financial institutions should enhance borrowers' qualification examination, and investigate the records of family housing registration and borrowers' credit records in strict accordance with provisions and should not grant loans to borrowers who do not comply with credit policies.

On April 9, 2013, the Guiding Opinions on Strengthening the Risk Control and Management of Loans to Local Financing Vehicles in 2013 (《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》) was issued by the former CBRC, pursuant to which all banks are required to impose aggregate loan limits on LGFVs and the banking financial institutions as legal persons should not expand the scale of loans to LGFVs. The opinions also require that, for LGFVs with a cash flow coverage ratio lower than 100% or a gearing ratio higher than 80%, the proportion of their loans to the total loans granted by all vehicles of the bank shall not exceed that of the previous year, and the bank shall take measures to gradually reduce disbursements of loans and increase efforts for recovery of loans.

Pursuant to the requirements of the Opinions of the State Council on Strengthening the Administration of Local Government Debts (《國務院關於加強地方政府性債務管理的意見》) issued by the State Council on September 21, 2014, financial institutions shall not provide financing to or seek guarantee from local governments in violation of applicable laws or regulations. Purchasing of bonds issued by local governments by financial institutions shall be in compliance with regulatory provisions. When providing financing to enterprises whose debt may become the government's contingent liabilities, financial institutions shall strictly regulate credit management by practicably enhancing risk identification and risk management. Financial institutions shall undertake on their own any consequential losses incurred as a result of providing financing to governments in violation of applicable laws or regulations, and the relevant authorities and persons shall be held legally liable according to laws and regulations, including the Commercial Banking Law and the Banking Supervision and Regulatory Law.

On September 29, 2014, the PBoC and the former CBRC issued the Notice of the PBoC and the CBRC on Further Improving Housing Financial Services (《中國人民銀行、中國銀行業監督管理委員會關於進一步做好住房金融服務工作的通知》), which sets the minimum down payment ratio at 30% and the minimum interest rate at 70% of benchmark interest rates on loans for a family purchasing a home for self-use for the first time, with the specific down payment ratio and interest rate to be determined by the banking financial institutions on their own according to their risk conditions. Banking financial institutions should apply the policies for first home buyers to families who already own a residence, have fully repaid the relevant residential mortgage loans, and are applying for a loan to purchase another ordinary commercial residence to improve their living conditions. Furthermore, in cities that have lifted or have not imposed the "restrictions on purchase", where a family that owns two or more residential properties and has repaid in full all relevant loans and applies for a loan to purchase another residential property, banking financial institutions shall prudently determine the down payment ratio and the loan interest rate, taking into account the borrower's ability to make repayment and credit standing.

On January 13, 2015, the former CBRC and the NDRC issued the Notice of the China Banking Regulatory Commission and the National Development and Reform Commission on Issuing the Guidelines for Energy Efficiency Credit (《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》). Pursuant to the notice, banking financial institutions may grant credit to energy efficiency projects invested by energy-consuming entities or contracted energy management projects conducted by energy-saving service companies. Banking financial institutions shall further improve their energy efficiency credit risk management capabilities by multiple means, including (1) specifying the access requirements for energy efficiency projects, energy-consuming entities and energy-saving service companies related to energy efficiency credit; (2) strengthening due diligence on energy efficiency credit and getting a full understanding of the risk evaluation on borrowers; (3) enhancing contracted energy management credit and post-loan management; and (4) establishing credit quality monitoring and risk early warning systems.

Under the latest audited Guidelines on Risk Management of Mergers and Acquisitions Loans for Commercial Banks (《商業銀行併購貸款風險管理指引》) promulgated by the former CBRC on February 10, 2015, the total balance of merger and acquisition loans approved by a commercial bank is subject to a cap of no more than 50% of the net tier-one capital of the bank for the corresponding fiscal period, the balance of merger and acquisition loans approved by a commercial bank to an individual borrower may not exceed 5% of the net tier-one capital of the bank for the corresponding fiscal period, a merger and acquisition loan may not exceed 60% of the merger and acquisition transaction price, and the tenor of merger and acquisition loans may not exceed seven years.

On March 30, 2015, the PBoC, the MOHURD and the former CBRC issued the Notice of the PBoC, MOHURD and the CBRC on Issues Concerning Individual Housing Loan Policies (《中國人民銀行、住房和城鄉建設部、中國銀行業監督管理委員會關於個人住房貸款政策有關問題的通知》), which specifies that for families who already own a residence, but have not fully repaid the relevant residential mortgage loans and are applying for a commercial individual housing loan again to purchase another ordinary residential property to improve their living conditions, the minimum down payment ratio is adjusted to not less than 40%, and the specific down payment ratio and interest rate should be reasonably determined by banking financial institutions according to the borrower's credit standing and ability to make repayment. For a family under housing provident fund scheme which uses entrusted loans under housing provident fund scheme to purchase the first ordinary residential property, the minimum down payment ratio is 20%. For a family under housing provident fund scheme which already owns a residence, has fully repaid the relevant residential mortgage loans and applies for an entrusted loan under housing provident fund scheme again to purchase another ordinary residential property to improve its living conditions, the minimum down payment ratio is 30%.

The Notice of the PBoC and CBRC on Issues Concerning the Further Improvement of Differentiated Housing Credit Policies (《中國人民銀行、中國銀監會關於進一步完善差別化住房信貸政策有關問題的通知》) issued by the PBoC and the former CBRC on September 24, 2015 requires that in cities where "restrictions on purchase" have not been implemented, for households which apply for commercial individual housing loans for the purchase of their first residential property, the minimum down payment ratio has been adjusted to not less than 25%.

The Notice of the PBoC and CBRC on Issues concerning Adjustment to the Housing Loan Policies for Individuals (《中國人民銀行、中國銀監會關於調整個人住房貸款政策有關問題的通知》) issued by the PBoC and the former CBRC on February 1, 2016 requires that in cities where "restrictions on purchase" have not been implemented, for families which apply for commercial individual housing loans for the purchase of their first residential property, the minimum down payment ratio is 25% in principle, with downward floating adjustment of 5 percentage points for all regions; if a family owns a residence, but has not fully repaid the relevant residential mortgage loans and applies for a commercial individual housing loan again to purchase another ordinary residential property to improve its living conditions, the minimum down payment ratio has been adjusted to not less than 30%. In cities where "restrictions on purchase" have been implemented, policy on individual housing loans will be implemented according to its original requirements.

On August 31, 2016, the NDRC, the former CIRC, the former CBRC, the CSRC, the Ministry of Environmental Protection, the PBoC and the Ministry of Finance jointly issued the Guiding Opinions on Building a Green Financial System (《關於構建綠色金融體系的指導意見》), which specifies that in respect of programs supported by green credit, application for interest subsidization backed by public finance may be filed according to the provisions. The incorporation of green credit into the macro prudent assessment framework shall be explored, and the results of the appraisal of the implementation of green credit based on key indicators and the results of appraisal of green banks shall be incorporated into the relevant indicator systems as important reference, so as to form an incentive mechanism supporting green credit and other green business, and the restraint mechanism containing loans for industries featuring heavy pollution, high energy consumption and excess production capacity.

On December 1, 2017, the Office of the Leading Group for the Special Campaign against Internet Financial Risks and the Office of the Leading Group for the Special Campaign against Peer-to-peer Lending Risks jointly issued the Notice on the Regulation and Rectification of the "Cash Loan" Business (《關於規範整頓"現金貸"業務的通知》), which specifies that the "cash loan" business that is characterized by no scene support, no designated purpose, no restriction on client group, no mortgage, etc. is exposed to relatively large financial risks and potential social risks. Relevant institutions shall accurately understand the principles for the "cash loan" business. No loans shall be granted to any borrower without income source. A specific upper limit shall be set on the total amount of the principal, interest and expenses of a single loan, and a loan shall generally be renewed for no more than twice. In addition, it further regulates banking financial institutions engaged in the "cash loan" business. When conducting the loan business with third-party institutions, banking financial institutions shall not outsource such core businesses as credit review and risk control. The "loan assistance" business shall return to the origin. Banking financial institutions shall not accept any credit enhancement service, loss-bearing commitment and other credit enhancement services in disguised form provided by any third-party institutions unqualified to provide guarantee and must require and ensure that such third-party institutions shall not charge any interest or fees from the borrowers.

On January 5, 2018, the former CBRC issued the Measures for the Administration of Entrusted Loans of Commercial Banks (《商業銀行委託貸款管理辦法》), which specifies: (1) entrusted loan business is an agency service of a commercial bank. As a trustee, a commercial bank shall not determine the borrowers for the clients, not participate in loan decisions of the clients, not provide guarantee in any form for the entrusted loan, not advance funds to grant the entrusted loan for the clients, not determine the guarantors for the borrowers or advance funds to repay the entrusted loan for the borrowers, or directly or indirectly undertake entrusted loans with credit funds or wealth management funds; (2) a commercial bank shall not accept others' funds under entrusted management, banks' credit funds, various special funds for specific purposes (save as otherwise specified by relevant departments of the State Council), other debt funds (save as otherwise specified by relevant departments of the State Council) and funds of which the sources cannot be proven, to grant entrusted loans, except for funds raised from issuance of bonds by a business group and used in the group; (3) the funds shall not be used for production, operation or investment in fields and for purposes prohibited by the state, not be used for investments in bonds, futures, financial derivatives and asset management products, etc., not be used as registered capital or for registration and capital verification and not be used for equity capital investment or capital and share increase, etc. (save as otherwise specified by regulatory authorities), nor shall the funds be used for other purposes in violation of regulatory provisions; (4) commercial banks shall set up a sound entrusted loan management information system to ensure the business information is complete, continuous, accurate and traceable; (5) a commercial bank shall not accept any entrusted loan application from a client which is a financial assets management company or an institution engaging in loan business; (6) a commercial bank shall not divert the funds of one client to another.

Foreign Exchange Business

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

Securities and Asset Management Businesses

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

(1) underwrite and deal in Chinese government bonds, financial institution bonds and commercial bonds issued by qualified non-financial institutions;

(2) act as agents in securities transactions including bonds issued by the Chinese government, financial institutions and other corporate entities;

(3) provide institutional and individual investors with comprehensive asset management advisory services;

(4) act as financial advisors in connection with large infrastructure projects, mergers and acquisitions and bankruptcy reorganizations;

(5) act as custodians for funds, including securities investment funds and corporate annuity funds.

On April 2, 2013, the CSRC and former CBRC promulgated the Administrative Measures on the Custodian Business for Securities Investment Fund (《證券投資基金託管業務管理辦法》), which provides that a commercial bank may be permitted to engage in the custodian business for securities investment funds, if, (1) such commercial bank has year-end net assets of not less than RMB2.0 billion for each of the previous three financial years and its capital adequacy ratio and other risk control indicators fulfil the relevant regulatory provisions; (2) The persons to be appointed as senior management personnel of the fund custody department must meet the statutory requirements and at least a half of employees in the department have obtained the qualification to engage in fund business; there should be at least 8 employees to be engaged in fund liquidation, accounting, investment supervision, information disclosure, internal auditing and monitoring and other businesses and they must have obtained the qualification to engage in fund business; specifically, employees working at positions of core businesses such as accounting and supervision should have more than 2 years of experience in custodian business; (3) such commercial bank is capable of keeping fund property safe and ensuring the integrity and independence thereof; (4) such commercial bank has a safe and efficient liquidation and settlement system; (5) the fund custody department has a fixed place of business and an independent security monitoring system; (6) the fund custody department has independent technology systems for custodian business, including network system, application system, security defending system, and data backup system; (7) such commercial bank has a sound internal audit monitoring system and risk control system; (8) such commercial bank had no records of major violation of laws and rules in the last three years; (9) such commercial bank has a fund custody department and the setup of the department can ensure the integrity and independence of custodian business operations; (10) such commercial bank meets other requirements of laws and administrative regulations and set by the CSRC and former CBRC as approved by the State Council.

Insurance Agency Business

Commercial banks in the PRC are not permitted to underwrite insurance policies, but are permitted to act as agents to sell insurance products through their distribution networks. Commercial banks that conduct agency sales of insurance products are required to comply with applicable rules issued by the former CIRC. On November 1, 2010, the former CBRC promulgated the Notice of the CBRC on Further Strengthening the Compliant Sales and Risk Management of Commercial Banks' Insurance Agency Business (《中國銀監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》), which provides that each outlet of a commercial bank may, in principle, cooperate with no more than three insurance companies in a financial year to sell their insurance products. If the outlet cooperates with more than three insurance companies, the outlet must maintain prudential operation and report to the local office of the former CBRC.

On August 23, 2019, the General Office of the CBIRC issued the Measures for the Administration of the Bancassurance Business of Commercial Banks (《商業銀行代理保險業務管理辦法》) ("Measures for the Administration of the Bancassurance Business"). The Measures came into effect as from October 1, 2019 and repealed several provisions issued by the former CBRC and/or the former CIRC for regulating insurance agency business of commercial banks. According to the Measures for the Administration of the Bancassurance Business, a commercial bank which engages in the insurance agency business shall obtain a license issued by the CBIRC or its local agency and shall strictly follow the principle of prudent operation. The sum of the premium incomes from accident insurance, health insurance, term life insurance, whole life insurance, annuity insurance with a term of not less than 10 years, endowment insurance with a term of not less than 10 years and property insurance (excluding investment-oriented insurance of property insurance companies) sold by a commercial bank as an agent shall not be lower than 20% of the total premium income from the insurance agency business. A commercial bank which engages in insurance agency business shall observe the rules and regulations on traceability management of insurance sales act.

Wealth Management Business

On April 27, 2018, the PBoC, CBIRC, CSRC and SAFE jointly issued the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) (the "April 27 Guideline"). The April 27 Guideline clearly states that, to regulate the asset management business of financial institutions, the regulators should stick to the bottom line of strict risk control, the fundamental goal of serving the real economy, the concept of combining macro-prudential management with micro-prudential regulation and combining institutional regulation with functional regulation, target problem orientation and the basic principles of activeness, prudence and caution, achieve comprehensive and unified regulation of the asset management business of various financial institutions, ensure fair market access and regulation, minimize regulatory arbitrage space, and effectively protect the legitimate rights and interests of financial consumers. It is worth noting that the April 27 Guideline has clear provisions on the following:

(1) The core elements of standard credit assets. Standard credit assets are characterized by equipartition, tradability, adequate information disclosure, centralized registration, independent trusteeship, fair pricing, and perfect liquidity mechanism, and are traded at interbank market, securities exchange market and other trading markets established with the approval of the State Council. The specific rules for defining standard credit assets shall be formulated by the PBoC and the financial regulatory authorities. Credit assets other than standard credit assets are non-standard credit assets.

(2) Investment scope of public offering products. It is specified in the April 27 Guideline that public offering products are mainly invested in standard credit assets and publicly traded stocks and shall not be invested in the equity of unlisted enterprises except as otherwise stipulated by laws, regulations and financial management departments. If permitted by laws, regulations and financial management departments, public offering products can be invested in commodities and financial derivatives.

(3) Identification of implicit guarantee. The following behaviors are regarded as implicit guarantee: (i) the issuer or manager of asset management products guarantees the principal and return of products in violation of the principle of determining net value based on real fair value, (ii) the principal and return of products are guaranteed through rolling issuance so that the principal, return and risks of asset management products are transferred from one investor to another; (iii) when the asset management products cannot be redeemed as scheduled or it is difficult for them to be redeemed, the financial institution issuing or managing the products raises funds by itself for redemption or entrusts other institutions with redemption; and (iv) other behaviors specified by the financial management departments.

(4) Net asset value measurement. Financial institutions shall measure asset management products on net asset value basis. Generation of net asset value shall comply with the Accounting Standards for Business Enterprises, timely reflect the return and risks of the underlying financial assets, be accounted by the trustee agency which then provides a report regularly, and be audited and confirmed by an external audit agency. The audited financial institution should disclose the audit results and submit them to the financial management departments. The principle of fair value measurement should be followed for financial assets and market value measurement is also encouraged.

(5) Limitations on multi-layer product structure. It is specified in the April 27 Guideline that asset management products can be further invested in asset management products, but the asset management products they invest cannot be reinvested in asset management products other than public offering securities investment funds.

(6) Leverage ratio. The leverage of asset management products falls into two categories: debt leverage and graded leverage; regarding debt leverage, the April 27 Guideline sets a maximum debt ratio (total assets/net assets) of 140%, 200%, 140% and 200% respectively for asset management products of open public offering, closed public offering, graded private offering and other private offerings, and prohibited financial institutions from using shares of products under entrusted management for collateral financing. Regarding graded leverage, the April 27 Guideline prohibited share grading of public offering products and open private offering products. For closed

private offering products that can be graded, the grading ratio (priority shares/inferior shares) must not exceed 3:1 for fixed income products, 1:1 for equity products, and 2:1 for commodity and financial derivative products and mixed products.

On September 26, 2018, the CBIRC promulgated Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks (《商業銀行理財業務監督管理辦法》), which repeals the Interim Measures on Administration of Personal Wealth Management Services of Commercial Banks and provides that (1) commercial bank that sells wealth management products shall not publicize or promise the guarantee of principal and proceeds; (2) commercial bank shall conduct the wealth management business through a subsidiary company with the independent legal person status. If the conditions are not met for the time being, the head office of the commercial bank shall set up a specialized department for the wealth management business to exercise centralized and unified management of the wealth management business; (3) there is a transitional period which lasts from the date when Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks comes into force to the end of 2020. During the transitional period, the new wealth management products issued by a commercial bank shall comply with the provisions of Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks, and for existing wealth management products, the commercial bank may issue former products for transition with immature assets invested by existing wealth management products, but it shall strictly restrict the products to the overall size of existing products and reduce them in an orderly manner.

On December 2, 2018, the CBIRC promulgated Measures for the Administration of Wealth Management Subsidiary Companies of Commercial Banks (《商業銀行理財子公司管理辦法》), according to which approval of the banking regulatory authority is required for setting up a wealth management subsidiary company by a commercial bank, and a wealth management subsidiary company of a bank shall meet the following conditions: (1) it has the bylaws prescribed in the Company Law of the People's Republic of China and by the banking regulatory authority of the State Council; (2) it has shareholders that meet the prescribed conditions; (3) it has the minimal registered capital prescribed in Measures for the Administration of Wealth Management Subsidiary Companies of Commercial Banks; (4) it has directors and senior executives meeting the conditions of qualifications for holding office, and has sufficient qualified practitioners holding positions of research, investment, valuation, risk management and other wealth management business positions; (5) it has established effective corporate governance, internal control and risk management systems, has an information system supporting separate management, establishment of separate accounts, separate accounting, and other business management of wealth management products, and has the technologies and measures ensuring the effective and safe operation of the information system; (6) it has the business premises, safety protection measures and other facilities suitable for the business operation; (7) it meets other prudential conditions prescribed in the rules of the banking regulatory authority of the State Council.

Bills Business

According to relevant provisions of the Commercial Banking Law (《商業銀行法》), when commercial banks engage in the settlement business, including bills acceptance, foreign exchange conversion and entrusted fund collection, the commercial banks shall honor the payments and credit receipts to accounts according to the specified timeline and shall not accumulate the bills or cheques or dishonor the cheques in violation of the requirements. Announcement on the prescribed timeline for honoring payments and crediting receipts into the account shall be made.

Interbank Business

On April 24, 2014, the PBoC, the former CBRC, CSRC, the former CIRC and SAFE jointly promulgated the Notice on Regulating Interbank Businesses of Financial Institutions (《關於規範金融機構同業業務的通知》), which sets out certain requirements in connection with regulating interbank business operations:

(1) the Notice defines and regulates interbank financing and investment businesses, including interbank lending, interbank deposits, interbank borrowing, interbank payments, financial assets held under resale agreements or financial assets sold under repurchase agreements. The Notice also requires that interbank businesses (with investment and financing being the core businesses) should be classified into different categories in accordance with business substance, and different interbank businesses should be managed based on the classification;

(2) financial assets held under resale agreements (and financial assets sold under repurchase agreements) shall only include bank acceptance bills, bonds, treasury bills and other types of financial assets with a reasonable fair value and high liquidity that are traded on the interbank market or securities exchange market; the party who sells financial assets under repurchase agreements shall not exclude the financial assets under the business from the balance sheet;

(3) financial institutions that engage in the business of financial assets held under resale agreements (and financial assets sold under repurchase agreements) and interbank investment business shall not accept or provide any direct or indirect, explicit or implicit credit guarantee from or for any third-party financial institutions, except as otherwise permitted by the state;

(4) financial institutions shall accurately measure risks and set aside capital and make provisions pursuant to the principle of "substance over form" and based on the nature of the underlying assets invested;

(5) financial institutions shall determine the financing term in a reasonable and prudent manner in interbank business. The term of interbank borrowing shall not exceed three years and the term of other interbank financing business shall not exceed one year, and such terms must not be extended beyond their maturity;

(6) the net balance of interbank funds (excluding interbank deposits for settlement purposes) placed by a single commercial bank to another financial institution as a legal person after deducting assets with zero risk-weighting shall not exceed 50% of the bank's tier-one capital and the balance of interbank funds borrowed by a single commercial bank shall not exceed one third of its total liabilities, which temporarily do not apply to the provincial rural credit cooperatives, secondary credit cooperatives with legal status and village & town banks;

(7) financial institutions engaging in interbank business should establish a sound and compatible risk management system and internal control system and adopt correct methods of accounting treatments.

On May 8, 2014, the General Office of the former CBRC issued the Notice on the Regulation of the Management of Interbank Business Conducted by Commercial Banks (《關於規範商業銀行同業業務治理的通知》), which requires commercial banks to establish a management system for interbank businesses based on the scale and complexity of the interbank businesses conducted, conduct all interbank businesses through specialized departments by the end of September 2014, and report the reform plans and implementation progress to the CBRC and its agency. The specialized departments shall not authorize other departments or branches to handle interbank businesses for which electronic transaction can be conducted via the financial trading market, including interbank lending, bonds held under resale agreements or bonds sold under repurchase agreements and negotiable certificates of deposit. For interbank businesses for which electronic transaction cannot be conducted via the financial trading market, the specialized department for interbank business of a commercial bank may authorize other departments or branches to handle operational matters such as marketing, inquiry, project promotion and customer relationship maintenance. However, the specialized department for interbank business shall gradually approve the counterparty, amount, term, pricing and contract, conduct centralized accounting treatment and bear sole risk responsibilities. A commercial bank shall establish a sound license management system, credit management policies and a counterparty access mechanism for interbank businesses.

Business between Banks and Trust Companies

On August 5, 2010, the former CBRC issued the Notice on Regulating the Relevant Matters on Wealth Management Cooperation between Banks and Trust Companies (《關於規範銀信理財合作業務有關事項的通知》), which specifies that the term of a trust product of a trust company which conducts bank-trust wealth management cooperation shall not be less than one year and requires commercial banks and trust companies to comply with the following requirements in conducting financing-type bank-trust wealth management cooperation: (1) implement balance ratio management on the financing-type bank-trust wealth management cooperation, i.e. the balance of financing business shall not exceed 30% of the balance of bank-trust wealth management cooperation; (2) trust companies shall not design open trust products. Funds for the investment-type bank-trust wealth management cooperation shall, in principle, not be invested in shares of non-listed companies.

On January 13, 2011, the former CBRC promulgated the Notice on Further Regulating the Wealth Management Cooperation between Banks and Trust Companies (《關於進一步規範銀信理財合作業務的通知》), according to which, the commercial banks shall transfer the off-balance sheet assets concerning bank-trust wealth management cooperation into their balance sheets by the end of 2011. Detailed transfer plans should be submitted to the former CBRC or its provincial offices before January 31, 2011. In principle, the bank-trust cooperation loan balances should be reduced by at least 25% quarterly. Trust companies should not draw dividends if the trust compensation reserves fall below 150% of the non-performing bank-trust loans or 2.5% of the total balance of bank-trust loans.

On November 22, 2017, the former CBRC issued the Notice on Regulating the Bank-Trust Business (《關於規範銀信類業務的通知》), according to which, (1) commercial banks shall, in the bank-trust business, include the business with credit risks actually assumed by commercial banks in uniform credit management and carry out the regulatory requirements for the credit concentration ratio under the principle of substance over form; (2) commercial banks shall categorize the bank-trust business of which the credit risks are actually assumed by them, categorize risks according to the risk status of underlying assets under the penetration management requirements, and accurately calculate and withdraw capital and make provision in light of the nature of underlying assets; (3) with respect to bank-trust channel business, commercial banks shall (i) monitor risk based on business substance, (ii) not use trust channels to conceal risks or to circumvent prohibitive regulations on use of funds, classification of assets, reserve provisions and capital occupation, and (iii) not falsely take advantage of channels to place assets off-balance sheet; (4) regarding bank-trust business, commercial banks shall manage trust companies based on a name-list system and prudently select counterparties after fully considering the risk management level and professional investment capacity of trust companies; (5) when conducting bank-trust business, commercial banks shall not illegally invest the trust funds in real estate, LGFVs, stock market, overcapacity and other restricted or prohibited fields.

Electronic Banking

To strengthen the security and risk management of electronic banking business, the former CBRC promulgated the Administrative Measures Regulating the Electronic Banking Business (《電子銀行業務管理辦法》) and Security Evaluation Guidelines on Electronic Banking (《電子銀行安全評估指引》) on January 26, 2006 and December 6, 2006, respectively. All banking institutions applying to establish an electronic banking business should have comprehensive risk management and internal control systems. Banking institutions are not permitted to have major accidents relating to their primary information management system and operations processing system in the year immediately prior to the submission of their application. In addition, all banking institutions conducting electronic banking business must adopt security measures to ensure the confidentiality of information and to prevent the unauthorized use of electronic banking accounts.

The former CBRC promulgated the Notice on Enhancing the Management of Customer Information of Electronic Banking (《關於加強電子銀行客戶信息管理工作的通知》) on August 9, 2011, which stresses the importance of commercial banks to be committed to the work concerning the security and confidentiality of customer information. Without customers' authorization, commercial banks may not directly or indirectly provide third-party organizations with the customers' names, types of certificates, certificate numbers, mobile phone numbers, fixed-line telephone numbers, correspondence addresses and other sensitive information of customers.

Credit Cards

On January 13, 2011, the former CBRC promulgated the Measures for the Supervision and Administration of the Credit Card Business of Commercial Banks (《商業銀行信用卡業務監督管理辦法》), which provides that commercial banks conducting credit card business shall (1) establish effective internal control and risk management systems to monitor the operation of their credit card business and protect the legitimate interests and personal information of customers; (2) without the authorization of customers, not apply relevant information for other purposes other than credit card business of the Bank; (3) establish and improve the risk management system and internal control system for credit card business, strictly implement license management and effectively identify, evaluate, monitor and control business risks; (4) fully disclose relevant information and business risks to cardholders and establish comprehensive mechanisms to handle relevant complaints; (5) get the approval from the former CBRC in advance.

On April 12, 2016, to improve the market mechanism of credit card business and the quality of credit card service, safeguard the lawful rights and interests of cardholders and promote the sound development of credit card market, the PBoC promulgated the Notice of the People's Bank of China on Issues Concerning Credit Card Business (《中國人民銀行關於信用卡業務有關事項的通知》), which provides (among others) that (1) the daily overdraft interest rate shall not be more than 0.05% or less than 0.035%; (2) the overdue fines and fees charged for providing cardholders with service beyond credit limit shall be cancelled; (3) where a cardholder withdraws cash from an ATM or any other self-service machine, the cumulative total thereof for one card per day shall not exceed RMB10,000.

Proprietary Investments

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

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

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

Financing to Micro and Small Enterprises

On July 23, 2014, the former CBRC promulgated the Notice on Improving and Innovating Loan Services for Micro and Small Enterprises and Enhancing Financial Services for Micro and Small 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》), requiring banking financial institutions to reasonably determine the term of working capital loans for micro and small enterprises, enrich and improve the working capital loan products for micro and small enterprises, actively innovate the service modes of working capital loans for micro and small enterprises, scientifically and accurately classify loan risks and improve risk management and financial services.

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

On June 22, 2015, the former CBRC issued the Notice on Further Implementing Financial Service Supervising Policy of Small and Micro Enterprises (《關於進一步落實小微企業金融服務監管政策的通知》), which proposes certain requirements on adhering to the problem-oriented principle, ensuring the implementation of policies, clarifying the emphasis of supports, increasing the input of credit and loan, advancing the innovation of loan services, expanding the scope of autonomous refinancing, improving tolerance indicator of non-performing assets, strengthening differentiated assessment, optimizing the allocation of internal resources, improving the service ability, strictly implementing the "two prohibitions and two restrictions" and standardizing service charge for the purpose of implementing each supporting policy and continually improving and deepening financial service to small and micro enterprises.

On March 4, 2019, the CBIRC issued the Notice by the General Office of China Banking and Insurance Regulatory Commission on Further Improving the Quality and Effect of Financial Services for Micro and Small-sized Enterprises in 2019 (《中國銀保監會辦公廳關於2019年進一步提升小微企業金融服務質效的通知》), which stipulates that banking financial institutions shall always maintain strategic focus, strengthen support for key fields of inclusive finance, pay particular attention to relatively weak groups among micro and small-sized enterprises and the effective credit demand, strive to achieve the goal of "two-sphere increase and two-sphere control", continue to maintain the statistical monitoring of comprehensive loans to micro and small-sized enterprises, further increase the proportion of banking credit to the total financing of micro and small-sized enterprises, and generally drive down the financing costs of micro and small-sized enterprises.

Large Denomination Certificates of Deposit

On June 2, 2015, the PBoC issued the Interim Measures for the Administration of Large-Denomination Certificates of Deposit (《大額存單管理暫行辦法》) to regulate the development of the business of large-denomination certificates of deposit, enlarge the market-oriented pricing range of deposit-taking financial institutions' debt-based products, and advance the market-oriented reform of interest rate in an orderly manner. The market interest rate pricing self-regulatory mechanism shall be determined by banks, so as to determine the interest rate and rules for interest accrual of large-denomination certificates of deposit according to market conditions. The market interest rate pricing self-regulatory mechanism also promulgated the Implementation Provisions of Management of Large Denomination Certificates of Deposit (《大額存單管理實施細則》) on June 2, 2015.

The above Measures and Implementation Rules require that a deposit-taking financial institution (the "**Issuer**") shall: (1) be a member entity of the national market interest rate pricing self-regulatory mechanism; (2) have formulated its own measures for the administration of large-denomination certificates of deposit, and established a management system for the business of large-denomination certificates of deposit; (3) meet other conditions required by the PBoC. To issue large-denomination certificates of deposit, the deposit-taking financial institution shall submit its annual issue plan to the PBoC for filing prior to the first issue in each year. For any adjustment to the annual issue plan, the deposit-taking financial institution shall refile with the PBoC. To issue large-denomination certificates of deposit, the Issuer shall, before the first issue of large-denomination certificates of deposit each year, register the annual issuance quantity with the National Interbank Funding Center, and the annual issuance quantity shall be consistent with the quantity specified in the annual issue plan filed with the PBoC. The quantity to be issued every time shall not exceed the annual quantity approved. Large-denomination certificates of deposit may be used to handle pledge business, including but not limited to pledge loans and pledge financing. The interest rate of large-denomination certificates of deposit shall be determined in a market-oriented manner. While the fixed-rate certificates of deposit shall be calculated at the nominal annualized return rate, floating-rate certificates of deposit shall be calculated at the floating rate of Shanghai interbank offered rate.

Structured Deposit Business

On October 18, 2019, the CBIRC issued the Notice of Further Regulating the Structured Deposit Business of Commercial Banks (《關於進一步規範商業銀行結構性存款業務的通知》), which requires commercial banks to strictly distinguish structured deposits from other deposits and set up a special management system, and formulate corresponding risk management measures according to the characteristics of structured deposits and include structured deposits in the balance sheet for accounting. In addition, the notice also stipulates the conditions and qualifications required for the issuance of structured deposits and regulates, among others, the sale and information disclosure thereof.

PRICING OF PRODUCTS AND SERVICES

Interest Rates for Loans and Deposits

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

On July 20, 2013, the PBoC comprehensively relaxed the control on the loan rate of financial institutions (housing mortgage interest rate not included). On September 29, 2014, the PBoC and the former CBRC stipulated that the policies for first home buyers should apply if a family already owned a residence, had fully repaid the relevant residential mortgage loans, and applied for a loan to purchase another ordinary commercial residence to improve its living condition.

Since October 24, 2015, the PBoC had removed the cap on interest rates for deposits and allowed PRC commercial banks to set interest rates for deposits based on commercial considerations.

On August 16, 2019, the PBoC promulgated the Announcement No. 15 [2019] of the People's Bank of China (《中國人民銀行公告[2019]第15號》), which provides that from August 20, 2019, the PBoC shall authorize the National Inter-bank Funding Center to announce the LPR based on the interest rate for open market operations on the 20th day of each month. Commercial banks shall set new loan rate with reference to the LPR, and adopt LPR as the basis for pricing the floating interest rate.

Pricing for Fee- and Commission-based Products and Services

The former CBRC and NDRC jointly promulgated the Administrative Measures on Pricing of Commercial Banking Services (《商業銀行服務價格管理辦法》) on February 14, 2014, which provides that the pricing of basic banking services that are extensively used by customers and have a significant bearing on the development of the national economy and people's livelihood shall be guided or determined by the government. Other than those services the pricing for which are guided or determined by the government, for commercial banking services which are priced based on market conditions, the bank is required to make public such prices at least three months prior to the implementation of such prices in accordance with the Administrative Measures on Pricing of Commercial Banking Services (《商業銀行服務價格管理辦法》).

On June 30, 2017, the NDRC and the former CBRC jointly issued the Notice on Canceling and Suspending the Charges for Some Basic Financial Services Provided by Commercial Banks (《關於取消和暫停商業銀行部分基礎金融服務收費的通知》), according to which inter-city cash withdrawal commissions for individuals within a bank shall be canceled and commercial banks shall suspend the service fees, fees for reporting of a loss and costs of production for promissory notes and bank drafts.

SUPERVISION OVER CAPITAL ADEQUACY

Latest Supervisory Standards Over Capital Adequacy

On June 7, 2012, the former CBRC promulgated the Administrative Measures for the Capital of Commercial Banks (Provisional) (effective on January 1, 2013), according to which capital adequacy ratios of commercial banks are calculated according to the following formulae:

(1) Capital adequacy ratio = (Total capital – corresponding capital deductions)/risk-weighted assets × 100%;

(2) Tier-one capital adequacy ratio = (Tier-one capital – corresponding capital deductions)/risk-weighted assets × 100%;

(3) Core tier-one capital adequacy ratio = (Core tier-one capital – corresponding capital deductions)/risk-weighted assets × 100%.

Regulatory Requirements in respect of Capital Adequacy Ratios

Regulatory requirements in respect of the capital adequacy ratios of commercial banks include the minimum capital requirement, capital reservation buffer requirement, countercyclical capital buffer requirement, additional capital requirement for systematically important banks and capital requirement under the second pillar. The capital adequacy ratio of commercial banks at each tier must meet the following minimum requirements: (1) capital adequacy ratio shall not be lower than 8%; (2) tier-one capital adequacy ratio shall not be lower than 6%; and (3) core tier-one capital adequacy ratio shall not be lower than 5%.

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

Meanwhile, systematically important banks are required to calculate and set aside additional capital. Systematically important banks in the PRC are required to calculate and set aside additional capital in an amount equal to 1% of their risk-weighted assets, which is to be fulfilled by core tier-one capital. If a PRC bank is recognized as a global systematically important bank, the additional capital requirement applicable to it cannot be less strict than those requirements generally provided for by the Basel Committee.

Furthermore, the CBIRC has the right to impose more prudent capital requirements under the second pillar framework in order to ensure adequate risk coverage, including: (1) specific capital requirements in respect of certain asset portfolios on the basis of risk assessment; and (2) specific capital requirements on an individual bank according to the results of supervisory inspections.

Time Limit for Meeting the Requirements

The Administrative Measures for the Capital of Commercial Banks (Provisional) provide that commercial banks are required to meet the regulatory requirements on capital adequacy ratios as set forth in those measures before the end of 2018, and where conditions permit, commercial banks are encouraged to meet the requirements ahead of schedule. For commercial banks which cannot continue to meet the requirements on the application of advanced approach for capital measurement as required by these measures, the former CBRC shall be entitled to request them to make rectification within a prescribed time limit. For commercial banks which failed to reach the standard within a prescribed time limit, the former CBRC shall be entitled to cancel their qualification for adopting advanced approach for capital measurement.

To ensure the smooth implementation of Administrative Measures for the Capital of Commercial Banks (Provisional), on November 30, 2012, the former CBRC promulgated the Notice Regarding the Arrangement of Transition Period of Implementation of the Administrative Measures for the Capital of Commercial Banks (Provisional) (《關於實施<商業銀行資本管理辦法(試行)>過渡期安排相關事項的通知》). According to the requirements of this notice, commercial banks shall meet the minimum capital requirements and systematically important banks in the PRC shall meet the additional capital requirements before January 1, 2013. During the transitional period, the capital reservation buffer requirement (2.5%) will be gradually introduced and commercial banks are required to meet the following annual capital adequacy ratio requirement:

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

Issuance of Capital Bonds

On June 17, 2004, the PBoC and former CBRC jointly promulgated the Measures for Administration on Issuance of Subordinated Bonds of Commercial Banks (《商業銀行次級債券發行管理辦法》). These Measures provide that the liquidation order of the principal and interest of subordinated bonds issued by commercial banks is subordinated to the banks' other liabilities but are senior to the banks' equity capital. The issuance of subordinated bonds is subject to the regulation of the PBoC and former CBRC in accordance with law. The former CBRC regulates the qualification for subordinated bonds issued by commercial banks and the method for the inclusion of such subordinated bonds in the supplementary capital. The PBoC regulates the issuance and trading of subordinated bonds in the interbank bond market.

Pursuant to the Administrative Measures for the Capital of Commercial Banks (Provisional), unqualified tier-two capital instruments issued by a commercial bank before September 12, 2010 may be included in regulatory capital before January 1, 2013, but from January 1, 2013, such instruments are to be decreased by 10% each year and, from January 1, 2022, such instruments are no longer allowed to be included in regulatory capital. For a tier-two capital instrument issued by a commercial bank between September 12, 2010 and January 1, 2013, if the instrument has no write-down or share conversion clause but meets other criteria for inclusion of the relevant capital instruments, it may be included in regulatory capital before January 1, 2013, but, from January 1, 2013, such instruments are to be decreased by 10% each year and, from January 1, 2022, such instruments are no longer allowed to be included in regulatory capital.

According to the Guiding Opinions on the Issuance of Corporate Bonds by Commercial Banks for Capital Replenishment (《關於商業銀行發行公司債券補充資本的指導意見》) promulgated by the CSRC and former CBRC on October 30, 2013, commercial banks listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange, domestic commercial banks issuing overseas listed foreign shares, or commercial banks with the application for domestic IPO under approval may issue corporate bonds containing write-down clauses to replenish their capital in accordance with the Securities Law of the People's Republic of China, Company Law of the People's Republic of China, and the measures of the CSRC for the administration of the issuance of corporate bonds.

Under the Notice of Issuing the Guiding Opinions on Commercial Banks' Innovation in Capital Instruments (《關於印發<關於商業銀行資本工具創新的指導意見(修訂)>的通知》) promulgated by CBIRC on November 22, 2019, other tier-one capital instruments and tier-two capital instruments issued by commercial banks shall comply with relevant provisions under the Administrative Measures for the Capital of Commercial Banks (Provisional) and meet relevant standards provided by the guiding opinions in the form of contract. In addition, commercial banks shall submit the issue plans of capital instruments to the CBIRC or its local offices which shall determine the capital property of capital instruments to be issued according to their regulatory duties and follow the procedures for approval according to relevant laws and regulations.

Supervision over Capital Adequacy

The former CBRC is responsible for supervising the capital adequacy of banking financial institutions in the PRC. It reviews and evaluates banking financial institutions' capital adequacy through both on-site examination and off-site surveillance.

Under the Administrative Measures for the Capital of Commercial Banks (Provisional), commercial banks are classified into four categories based on their capital adequacy, and the CBRC adopts corresponding actions to these banks, the details of which are set forth below:

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

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

Introduction of the New Leverage Requirements

In an effort to efficiently control the leverage and maintain the safe and sound operations of commercial banks, the former CBRC promulgated the newly-amended Administrative Measures on the Leverage Ratio of Commercial Banks (《商業銀行槓桿率管理辦法》) on January 30, 2015, which came into effect on April 1, 2015.

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

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

For a commercial bank which fails to meet the minimum leverage ratio, the former CBRC and its local offices may take remedial actions, including requiring the commercial bank to: (i) supplement its tier-one capital within a specified period; (ii) control the growth of its on-and-off balance sheet assets; and (iii) reduce the size of its on-and-off balance sheet assets. If the commercial bank fails to remediate its non-compliance within the specified period, or its behavior has seriously endangered its sound operation or damaged the legitimate interests of depositors or other clients, the former CBRC and its local offices may take relevant regulatory actions pursuant to the PRC Banking Supervision and Regulatory Law. In addition to relevant regulatory measures, the former CBRC and its local offices may also impose an administrative penalty upon the commercial bank.

The Administrative Measures on the Leverage Ratio of Commercial Banks also provide that systematically important banks are required to meet minimum regulatory requirements from April 1, 2015 when these measures become effective, while other commercial banks are required to meet such requirements before the end of 2016.

Basel Accords

The Basel Capital Accord, or Basel I, was introduced by the Basel Committee on Banking Supervision, or the Basel Committee, in 1988. Basel I is a capital measurement system for banks that provides for the implementation of a credit risk measurement framework with a minimum capital adequacy ratio of 8%.

Since 1998, the Basel Committee has issued certain proposals for Basel II to replace Basel I.

On December 16, 2010, Basel III was officially issued by the Basel Committee. Basel III: (1) strengthens capital adequacy in capital resources, risk-weighted assets and capital ratios by requiring banks to hold more higher-quality capital against more conservatively calculated risk-weighted assets; (2) introduces a new leverage ratio as a backstop to the risk-based capital adequacy ratio requirement, which is aimed at promoting the build-up of buffered capital that can be drawn down in periods of stress; and (3) introduces two new global liquidity standards, which aim to ensure that adequate funding is maintained in case of crisis.

In line with the reform of Basel Accords and the implementation of Basel III, on April 27, 2011, the former CBRC promulgated the Guiding Opinions on the Implementation of New Regulatory Standards in China's Banking Industry (《中國銀監會關於中國銀行業實施新監管標準的指導意見》), which set out the key targets and principles for the reform of China's capital regulatory framework. On June 1, 2011, the former CBRC issued the Administrative Measures on the Leverage Ratio of Commercial Banks. On June 7, 2012, the former CBRC issued the Administrative Measures for the Capital of Commercial Banks (Provisional) which came into effect on January 1, 2013 and abolished the Administrative Measures for Capital Adequacy Ratio of Commercial Banks (《商業銀行資本充足率管理辦法》) and related guidelines.

To increase the effectiveness of capital supervision, improve the risk management capabilities of commercial banks and strengthen market constraint, the former CBRC further issued four policy documents on July 19, 2013, which were the Rules for the Measurement of Risk Exposure Capital of Central Counterparties (《中央交易對手風險暴露資本計量規則》), the Regulatory Requirements for the Disclosure of Information on 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 Supplementary Regulatory Requirements for the Implementation of the Internal Rating Approach by Commercial Banks (《關於商業銀行實施內部評級法的補充監管要求》), and the Questions and Answers on Capital Regulation Policies (《資本監管政策問答》).

In January 2013, the Basel Committee issued the Monitoring Standards for Liquidity Coverage Ratio and Liquidity Risk in the Third Installment of Basel Accords (《第三版巴塞爾協議流動性覆蓋率和流動性風險監測標準》). In January 2014, the Basel Committee issued the Leverage Ratio Framework and Disclosure Requirements in the Third Installment of Basel Accords (《第三版巴塞爾協議槓桿率框架和披露要求》), which revised the international rules in relation to leverage ratio. According to the new rules of leverage ratio issued by the Basel Committee, in January 30, 2015, the former CBRC revised the Administrative Measures on the Leverage Ratio of Commercial Banks which was issued on June 1, 2011, and put forward clearer and stricter requirements for the disclosure of leverage ratio of commercial banks.

LOAN CLASSIFICATION, ALLOWANCES AND WRITE-OFFS

Loan Classification

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

Loan Loss Allowance

According to the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》), loans classified as substandard, doubtful or loss are regarded as non-performing, for which commercial banks shall make full allowance for loan loss and write off loan loss on a timely manner pursuant to relevant requirements based on loan classification.

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

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

Supervision of Loan Classification and Loan Loss Allowance

Commercial banks are required to report to the CBIRC information regarding loan classification and loan loss allowance on a regular basis via quarterly report and annual report. Pursuant to the Administrative Measures for Loan Loss Allowance of Commercial Banks that took effect on January 1, 2012, banking regulatory authorities can issue risk notices to a commercial bank and require remediation to be made accordingly if the commercial bank fails to meet the relevant minimum loan loss allowance standards for consecutive three months. Banking regulatory authorities have the power to take further regulatory actions pursuant to PRC Banking Supervision and Regulatory Law if such non-compliance lasts for consecutive six months.

Bulk Transfer of Non-performing Assets

The MOF and the former CBRC promulgated the Administrative Measures for Bulk Transfer of Non-performing Assets of Financial Enterprises (《金融企業不良資產批量轉讓管理辦法》) on January 18, 2012, which provide that financial enterprises may carry out bulk transfer of their non-performing credit assets and non-credit assets generated from their business operations to asset management companies, mainly including: loans in the substandard, doubtful and loss categories recognized according to statutory processes and standards, written-off book assets, repossessed assets and other non-performing assets. The non-performing assets that may not be bulk transferred include the assets whose debtors or guarantors are state organs, the assets listed in the national enterprise policy-mandated bankruptcy plan upon approval by the State Council, the assets concerning state security and sensitive information in national defense and military industry, personal loans (including various loans with individual as borrowing principal, such as housing loans, car loans, educational loans, credit card overdraft and other consumption loans extended to individuals), the assets subject to transfer terms in borrowing contracts or guarantee contracts, and other assets restricted to transfer by national laws and regulations.

Loan Write-offs

Under the regulations issued by the former CBRC, the PBoC and the MOF, commercial banks are required to establish a strict audit and approval process to write off loan losses. In accordance with the Administrative Measures for the Write-off of Bad Debts of Financial Enterprises (2017 Edition) (《金融企業呆賬核銷管理辦法》) (2017年版) promulgated by the MOF on August 31, 2017 and became effective since October 1, 2017, after the financial institution adopts necessary measures and procedures, loans in compliance with the recognition standards promulgated by the MOF are allowed to be written off following the internal review process of the financial institution.

Allowance and General Reserve for Impairment Losses

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

Other Operational and Risk Management Ratios

The former CBRC promulgated the Administrative Measures for the Capital of Commercial Banks (Provisional) and 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)》) ("**Core Indicators (Provisional)**"). The table below sets forth our required ratios of the Core Indicators for the periods and as of the dates indicated.

Indicator categories	Primary indicators	Secondary indicators	Requirement (%)	As of December 31, 2017	2018	2019	As of March 31, 2020
Risk Level							
Liquidity risk	Liquidity ratio		≥25	30.5%	46.67%	61.89%	63.72%
Credit risk	Non-performing asset ratio		≤4	0.43%	0.63%	0.69%	0.74%
		Non-performing loan ratio	≤5	1.47%	1.82%	1.80%	1.80%
	Credit exposure to a single group customer		≤15	7.14%	7.71%	7.33%	8.56%
		Loan exposure to a single customer	≤10	4.52%	3.52%	4.45%	7.34%
Risk Cushion							
Profitability	Cost-to-income ratio		≤45	35.89%	34.23%	28.68%	23.52%(3)
	Return on assets(1)		≥0.6	0.80%	0.47%	0.67%	0.63%(3)
	Return on equity(1)		≥11	15.30%	8.02%	10.27%	10.02%(3)
Capital adequacy	Capital adequacy ratio		≥10.5	12.82%	15.12%	16.03%	15.05%
		Tier-one capital adequacy ratio(2)	≥8.5	8.32%	10.42%	11.78%	11.05%
		Core tier-one capital adequacy ratio	≥7.5	8.29%	10.39%	9.76%	9.17%

Notes:

(1) As of December 31, 2017, 2018, 2019 and March 31, 2020, our return on assets was 0.80%, 0.47%, 0.67% and 0.63%, and the return on equity was 15.3%, 8.02%, 10.27% and 10.02%, respectively, of which the return on assets and the return on equity in 2018 and 2019 did not meet the requirements of the Core Indicators (Provisional), primarily due to the deepening of interest rate liberalization in the PRC and the intensification of price competition between the PRC banking industry, which narrowed our net interest spread and reduced our profitability. In 2019, we adjusted our business structure in a timely manner and increased the proportion of highly-yielding assets, which cause our profitability gradually improved. The return on assets in 2019 increased by 0.2% as compared to 2018, and the return on equity increased by 2.25% as compared to 2018.

Our PRC Legal Advisor, is of the view that the Core Indicators (Provisional) does not contain clear penalties in relation to non-compliance with the return on assets and return on equity set out therein. As stated in the Core Indicators (Provisional), except as otherwise stipulated in laws, administrative regulations and departmental rules, the core indicators shall not be used as a direct basis for administrative penalties. As of Latest Practicable Date, we were not subject to any penalty from the relevant regulatory authority for not meeting the requirements on return on assets and return on equity under the Core Indicators (Provisional) during the Track Record Period and has not experienced liquidity issue during the Track Record Period.

(2) As of December 31, 2017, our tier-one capital adequacy ratio was 8.32%. According to the requirements of the Notice of CBIRC Regarding the Arrangement of Transition Period of Implementation of the Administrative Measures for the Capital of Commercial Banks (Provisional), the tier-one capital adequacy ratio for Non-Systematically Important Banks should reach 8.1% and 8.5% by the end of 2017 and by the end of 2018, respectively. Therefore, our tier-one capital adequacy ratio for the year has reached the effective regulatory requirements at that time.

(3) Calculated based on annualized basis.

Core Indicators (Provisional) set out certain other indicators, including ratios relating to interest rate risk sensitivity, loss rate of operational risk and loan migration. However, the specific indicator has not yet been specified, and the CBIRC may formulate regulatory requirements regarding to such ratios in the future.

CORPORATE GOVERNANCE AND INTERNAL CONTROLS

Corporate Governance

The Company Law of the People's Republic of China, Commercial Banking Law and other laws, regulations and regulatory documents provided specific requirements for corporate governance. Among them, the Guidance on Corporate Governance of Commercial Banks issued by the former CBRC on July 19, 2013 requires commercial banks to establish a sound corporate governance system and a clear organizational structure, with management and supervisory powers, functions and responsibilities being clearly split among the board of directors, the board of supervisors and the senior management.

According to the Guidance on the Work of Board of Supervisors of Commercial Banks (《商業銀行監事會工作指引》) issued by the former CBRC, employee supervisors and external supervisors shall account for at least one third of the members of the board of supervisors of a commercial bank. According to the Guidance on Independent Directors and External Supervisors of Joint-Stock Commercial Banks (《股份制商業銀行獨立董事和外部監事制度指引》), the board of directors of a commercial bank shall comprise at least two independent directors and the board of supervisors shall comprise at least two external supervisors.

On November 25, 2019, CBIRC issued the Measures for the Corporate Governance Supervision and Evaluation of Banking and Insurance Institutions (provisional) (《銀行保險機構公司治理監管評估辦法(試行)》), which stipulates that CBIRC and its local offices will, based on the judgment and evaluation results of commercial banks on corporate governance and risk management, classify commercial banks into five grades and take different regulatory measures accordingly.

Internal Controls

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

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

Information Disclosure Requirements

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

Related Party Transaction

The Administrative Measures on Connected Transactions with Insiders and Shareholders of Commercial Banks (《商業銀行與內部人和股東關聯交易管理辦法》) promulgated by the former CBRC on April 2, 2004, which provided stringent and detailed requirements on the related party transactions of PRC commercial banks, requires PRC commercial banks to adhere to the principles of good faith and fairness in conducting related party transactions. PRC commercial banks are not allowed to grant unsecured loans to related parties. Related party transactions of commercial banks are required to be based on commercial principles and on terms no more favorable than similar transactions with non-related parties.

These measures set out detailed provisions on the definition of a related party, the form and content of a related party transaction as well as the procedures and principles which must be followed in related party transactions.

RISK MANAGEMENT

Since its inception, the former CBRC has published, in addition to guidelines concerning granting loan and credit to certain specific industries and customers and measures in respect of the implementation of Basel Accords, numerous risk management guidelines and rules in an effort to improve the risk management of PRC commercial banks, including operational risk management, market risk management, compliance risk management, liquidity risk management, information technology risk management and a supervisory rating system. For the guidelines concerning loans and credit to certain specific industries and customers and measures in respect of the implementation of Basel Accords, please see the subsections headed "— Regulation on Principal Commercial Banking Activities – Loan Business" and "— Supervision over Capital Adequacy — Basel Accords". The former CBRC also issued the Core Indicators (Provisional) (《核心指標(試行)》) as a basis of supervising the risk management of PRC commercial banks. The former CBRC established requirements for ratios relating to risk levels and risk provisions in the Core Indicators (Provisional) (《核心指標(試行)》) and is expected to establish requirements for certain ratios relating to risk mitigation for the purpose of evaluating and monitoring the risks of PRC commercial banks. Please see the subsection headed "— Loan Classification, Allowances and Write-offs — Other Operational and Risk Management Ratios". The former CBRC periodically collects data through off-site surveillance to analyze such indicators and evaluate and issue early warnings of the risks on a timely basis.

Latest Regulatory Requirements of the Banking Regulatory Authorities in China on the Operations and Risk Management of Commercial Banks

On March 28, 2017, the former CBRC issued the Notice of the General Office of the CBRC on the Special Governing of Behaviors of Illegal, Irregularity and Unlawful Conduct in the Banking Industry (《中國銀監會辦公廳關於開展銀行業"違法、違規、違章"行為專項治理工作的通知》) and the Notice of the General Office of the CBRC on the Special Governance against Regulatory Arbitrage, Spinning Arbitrage and Related Arbitrage in the Banking Industry (《中國銀監會辦公廳關於開展銀行業"監管套利、空轉套利、關聯套利"專項治理工作的通知》), and on April 6, 2017, it issued the Notice of the General Office of the CBRC on Special Administration on Improper Innovation, Improper Trading, Improper Incentives and Improper Fees in the Banking Industry (《中國銀監會辦公廳關於開展銀行業"不當創新、不當交易、不當激勵、不當收費"專項治理工作的通知》). These documents, based on the objective of further preventing and controlling financial risks, managing financial chaos, urging banking institutions to strengthen compliance management, standardizing business operations, effectively preventing and controlling risks, steadily regulating development and better serving the real economy, comprehensively carried out special governing of behaviors that violate financial laws, regulatory rules and internal regulations, special administration on supervisory arbitrage, spinning arbitrage and related arbitrage and special administration on improper innovation, improper trading, improper incentives and improper fees in banking institutions, and requested banks to perform fully self-examination in respect of the above and regulatory authorities to supervise and inspect banks.

In April 2017, the former CBRC successively issued the Guiding Opinions of the CBRC on Improving the Quality and Efficiency of the Banking Industry in Serving the Real Economy (《中國銀監會關於提升銀行業服務實體經濟質效的指導意見》), the Notice of the CBRC on Concentrated Rectification of Market Chaos in the Banking Industry (《中國銀監會關於集中開展銀行業市場亂象整治工作的通知》) and the Guiding Opinions of the CBRC on Risk Prevention and Control of the Banking Industry (《中國銀監會關於銀行業風險防控工作的指導意見》) and other documents. These documents regulated the risk control, business management, classified regulation, stable operation, improved service quality and other aspects of banks.

On January 12, 2018, the former CBRC issued the Notice of the CBRC on Further Deepening the Rectification of Market Chaos in the Banking Industry (《中國銀監會關於進一步深化整治銀行業市場亂象的通知》), which marks the following as the key aspects of market rectification in the banking industry for 2018:

(1) Corporate governance: shareholders and equity; performance and assessment of the Shareholders' general meetings, the Board of Directors, the Board of Supervisors and the senior management; performance of Directors and the senior management without approval from regulators of their qualifications; performance of the chief risk officer, the chief compliance officer, the internal audit and financial officer and other personnel without obtaining relevant qualifications that are required to be approved;

(2) Behaviors in violation of macro-control policies, with a focus on rectification of violation of credit policies and violation of real estate regulatory policies;

(3) Shadow banking and cross-financial product risks, with a focus on the governance reform of inter-bank business, wealth management business, off-balance sheet business and cooperative business;

(4) Infringement of financial consumption rights, such as improper selling and improper charges;

(5) Benefit transfer: transferring benefits to Shareholders and related persons;

(6) Illegally carrying out businesses: carrying out deposit and loan business, and bills business illegally, and concealing or disposing of non-performing assets illegally;

(7) Cases and operational risks: out of place of the employee management and internal controls.

On May 8, 2019, the CBIRC issued the Notice of Carrying Out the Campaign of "Consolidating the Achievements in Chaos Control and Promoting Compliance Development" (《中國銀保監會關於開展"鞏固治亂象成果促進合規建設"工作的通知》), which stipulates that with a view to comprehensively implementing the decisions and arrangements of the CPC Central Committee and the State Council in respect of financial work, effectively endeavoring to prevent and eliminate financial risks, and promoting the achievement of high-quality development of the banking industry and the insurance industry, the CBIRC has decided to launch a campaign of "Consolidating the Achievements in Chaos Control and Promoting Compliance Development" in banking and insurance institutions. On the basis of the previous irregularity rectification work, it requires to continue to carry out rectification for key risks in key fields, strictly inspect policy implementation, strictly examine potential risks, and strictly investigate violations of the laws and regulations. Banking institutions shall carry out the rectification work from five such aspects as ownership and corporate governance, macro-policy implementation, credit management, risks of shadow banks and cross-financial business, and disposal of key risks.

Risk Management and Prevention

On April 7, 2017, the former CBRC issued the Guidelines of the CBRC in relation to Risk Management Prevention and Control (《中國銀監會關於銀行業風險防控工作的指導意見》), which requires the banks to enhance management on credit risks and liquidity risks, regulate their investment in debt securities, interbank business, cross financing, asset management and agency business, prevent risks in real estate industry and LGFV, and mitigate financial risks associated with internet finance and private finance. On April 26, 2017, the former CBRC issued the Notice of the CBRC to Distribute Guidance on Management of Commercial Bank's Collaterals and Pledges (《中國銀監會關於印發商業銀行押品管理指引的通知》), which requires commercial banks to include its management on collaterals and pledges into its overall risk management system to improve relevant governance structure, internal rules and policies, business operation procedures and information system accordingly. On May 23, 2018, the CBIRC promulgated the Administrative Measures on Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》), which requires the commercial banks to establish and optimize their liquidity risk management system, including effective risk management and governance structure for liquidity risks, comprehensive risk management strategies, policies and procedures for liquidity risks, effective management information system to identify, measure, monitor and control liquidity risks, to ensure the liquidity demand can be fulfilled in a timely manner and at reasonable cost.

Large Risk Exposure Management

On April 24, 2018, the CBIRC promulgated the Measures for the Administration of the Large Risk Exposures of Commercial Banks (《商業銀行大額風險暴露管理辦法》) ("the Administrative Measures"), which came into effect on July 1, 2018. The Administrative Measures defines the meaning of large risk exposures, stipulates the regulatory standards and methods for measurement of such exposures according to the actual situation of banks in China with reference to international regulatory standards, and proposes a set of arrangements and requirements for commercial banks to strengthen large risk exposures management, hence helping promote commercial banks to enhance their centralized risk management, reduce their customer credit concentration and prevent and control systemic risks effectively.

All credit businesses where banks bear credit risks are included in regulatory framework for large risk exposures, which specifically include six categories: one, the on-balance sheet credit business such as loan, bond investments and deposits with banks; two, business of investment in asset management products or asset securitization products; three, transactions of bond, stock and their derivatives; four, OTC derivatives and securities finance transactions; five, off-balance sheet business such as guarantee and commitments; and six, other businesses that are carried out in accordance with the principle of substance is more important than form and whose credit risks are borne by the commercial banks.

The Administrative Measures have clarified that the balance of commercial bank's loans to non-interbank single customers shall not exceed 10% of net capital, the risk exposures to non-interbank single customers shall not exceed 15% of net tier-one capital, the risk exposures to a group of non-interbank related customers shall not exceed 20% of net tier-one capital and the risk exposures to interbank single customers or group customers shall not exceed 25% of net tier-one capital, which increased regulatory requirements for a single bank's risk exposures to a single interbank customer; defined the upper limit of total amount for a single bank's credit to a single company or group, further standardized interbank business, and helped guide banks to invest more funds in real economy and to gradually get rid of dependence on interbank economy.

The Administrative Measures also put forward four requirements for large risk exposure management of commercial banks: (1) establishing and improving organizational structure for large risk exposure management, making the management responsibilities of the Board, senior management and relevant departments clear, building a working mechanism that connects with each other and checks and balances effectively; (2) formulating management system for large risk exposure and promptly filing to the regulatory authorities; (3) setting internal limits for large risk exposure and continuously monitoring, early warning and controlling according to large risk exposure regulatory requirements as well as with reference to the actual situation of the Bank; and (4) strengthening information system construction and continuously collecting relevant data information to effectively support large risk exposure management.

Enhancing Overall Management Capacity

The CBIRC issued Notice of the CBIRC to Distribute Measures for the Administration of Joint Credit Granting by Banking Financial Institutions (Provision) (《中國銀行保險監督管理委員會關於印發銀行業金融機構聯合授信管理辦法(試行)的通知》) on May 22, 2018. This notice requires banking institutions to sufficiently recognize the importance of the joint credit grant mechanism and its significance for enhancing the banking institution's overall credit risk management capacity. According to this notice, banking institutions shall implement the joint credit grant mechanism to work jointly on the prevention, warning and solution of risks associated with corporate borrowers, including jointly monitoring the key aspects in relation to the credit risks of relevant borrowers, covering their operation and management, management efficiency, key investment projects, guarantee obligations to external parties, related party transactions and cross-default status, so as to effectively control major credit risks.

Supervisory Rating System

On June 19, 2014, the former CBRC promulgated the Internal Guidelines on Supervisory Ratings for Commercial Banks (《商業銀行監管評級內部指引》), which require all commercial banks legally established in China (not applicable to newly-established commercial banks) to be evaluated by the former CBRC based on a supervisory rating system. Under these guidelines, the capital adequacy, asset quality, management quality, profitability, liquidity risk, market risk and information technology risk of commercial banks are evaluated and scored by the former 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.

ANTI-MONEY LAUNDERING REGULATION

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

In accordance with the Anti-money Laundering Regulations for Financial Institutions (《金融機構反洗錢規定》) promulgated by the PBoC on November 14, 2006, PRC commercial banks are required to establish specific bodies for anti-money laundering or designate internal bodies to be responsible for anti-money laundering work. Over the same period, the PBoC promulgated 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》) (reamended on December 28, 2016 and July 26, 2018) pursuant to which upon the detection of any suspicious transactions or transactions involving large amounts, commercial banks are required to report the transactions to the China Anti-money Laundering Monitoring & Analysis Center. Where necessary and pursuant to appropriate judicial proceedings, commercial banks are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. The PBoC supervises and conducts on-site examinations of commercial banks' compliance with anti-money laundering laws and 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, the former CBRC, CSRC and the former CIRC jointly issued the Administrative Measures for the Identification of Clients and the Keeping of Clients' Identity Information and Transaction Records by Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》), pursuant to which commercial banks are required to establish, improve and implement a customer identification system, they shall, under the principle of security, accuracy, completeness and confidentiality, properly keep their clients' identity information and transaction records, establish and perfect their internal operation rules for identifying their clients and keeping the identity information and transaction records thereof, etc.

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

On September 29, 2018, the PBoC promulgated the Circular on Issuing the Money Laundering and Terrorist Financing Risk Management Guidelines for Corporate Financial Institutions (for Trial Implementation) (《關於印發<法人金融機構洗錢和恐怖融資風險管理指引(試行)>的通知》), stipulating that a corporate financial institution shall establish a money laundering risk management structure with sound organizations, complete structure and clear duties, standardize the division of duties in money laundering risk management among the board of directors, the board of supervisors, the senior management, business departments, the anti-money laundering management department, the internal audit department, the human resources department, the information technology department, domestic and overseas branches and related affiliates, and establish an operational mechanism with clear layers, coordination and effective cooperation.

On January 29, 2019, the CBIRC promulgated the Measures for the Administration of Anti-money Laundering and Anti-terrorist Financing by Banking Financial Institutions (《銀行業金融機構反洗錢和反恐怖融資管理辦法》), stipulating that local offices of the banking regulatory authorities under the State Council are responsible for the supervision and administration of anti-money laundering and anti-terrorist financing by banking financial institutions within their respective jurisdiction according to laws, administrative regulations and the Measures. Banking financial institutions are required to establish and improve a risk management system for money laundering and terrorist financing, comprehensively identify and evaluate the money laundering and terrorist financing risk they face and adopt policies and procedures corresponding to the risks. Besides, banking financial institutions are required to incorporate the management of the risks of money laundering and terrorist financing into a comprehensive risk management system, and embed the requirements for anti-money laundering and anti-terrorist financing into the compliance management and internal control system to ensure that the risk management system for money laundering and terrorist financing may completely cover various products and services.

USE OF FUNDS

Under Commercial Banking Law, commercial banks are not permitted to engage in trust investment or securities business, or invest in real property other than for their own use, or invest in non-banking financial institutions and enterprises, unless otherwise approved by the relevant government authorities or otherwise specified in relevant laws and regulations. The use of funds by commercial banks is limited to the following: (1) short-term, medium-term and long-term loans; (2) acceptance and discounts on instruments; (3) interbank deposits; (4) trading of government bonds; (5) trading of bonds issued by financial institutions; (6) investment in banking institutions; and (7) other uses as may be approved by the relevant government authorities.

REGULATORY AND SHAREHOLDERS' APPROVALS

The Bank has obtained the Shareholders' approval for the proposed listing. For details, see "Appendix VIII – Statutory and General Information – 1. Further Information about Our Bank – D. Resolutions of Our Shareholders" in this prospectus. The Bank also obtained approvals from CBIRC Shandong Office and CSRC for the Global Offering and the application to list the H Shares on the Hong Kong Stock Exchange, on March 27, 2020 and September 9, 2020, respectively.

OUR HISTORY

Overview

Our Bank is a city commercial bank headquartered in Weihai City, Shandong Province, the PRC. As approved by the PBoC, our Bank was established as a joint stock commercial bank on July 21, 1997 under the name of "Weihai City Cooperation Bank Co., Ltd. (威海城市合作銀行股份有限公司)", which was established and promoted jointly by seven non-individual shareholders including Weihai Municipal Finance Bureau and the original shareholders of five credit cooperatives, namely Zhongxin Cooperatives (中心社), Xinwei Cooperatives (新威社), Xinghai Cooperatives (興海社), Zhenxing Cooperatives (振興社) and Shuntong Cooperatives (順通社). At the time of establishment, the registered capital of our Bank was RMB100,644,909, divided into 100,644,909 Domestic Shares with a nominal value of RMB1.00 each.

On April 17,1998, as approved by the PBoC Shandong Branch, the name of our Bank was changed from Weihai City Cooperation Bank Co., Ltd. to "Weihai City Commercial Bank Co., Ltd. (威海市商業銀行股份有限公司)".

The Bank's principal businesses include corporate banking (including financial leasing services provided through our subsidiary, Tongda Financial Leasing Co.), retail banking, and financial markets.

Milestones

Key milestones in our development are as follows:

Time	Events
July 1997	Our Bank was established in Weihai City, Shandong Province, the PRC.
December 1998	Shandong Hi-Speed Group Company invested in our Bank and became the controlling shareholder of our Bank.
March 2004	Our Bank passed the ISO9001 Quality Management System Certification.
December 2004	Our Bank's total assets reached RMB10 billion.
December 2005	Both the total assets and deposit balance of our Bank reached RMB10 billion.
December 2007	Our Bank set up a branch in Jinan.
March 2009	Our Bank set up a branch in Tianjin Municipality and achieved cross provincial operations.
June 2009	Our Bank released the Corporate Culture Blue Book (企業文化藍皮書).

Time	Events
August 2010	Our Bank became the first financial institution in Shandong Province with a post-doctoral research station.
December 2010	Our Bank's total assets reached RMB50 billion.
December 2013	Our Bank's total assets reached RMB100 billion.
December 2014	Our Bank implemented reform and transformation projects and established Supervising Divisions in Weihai City.
December 2015	Our Bank's total assets reached RMB150 billion.
June 2016	Our Bank promoted and established Tongda Financial Leasing Co., the first financial leasing company promoted and established by commercial bank in Shandong Province.
August 2017	We launched our credit card business.
December 2017	Our Bank's total assets reached RMB200 billion.
November 2018	With the guidance of building a "Bi-focus retail banking", our Bank carried out strategic transformation and reform in Weihai region.
November 2019	Our Bank promoted the strategic transformation and reform throughout the Bank.
November 2019	Our Bank issued perpetual bond in an aggregate principal amount of RMB3.0 billion.
March 2020	We ranked 80th in the "2019 China's Top 100 Banks" released by the China Banking Association.

Changes in the Registered Capital of our Bank

At the time of establishment, the registered capital of our Bank was RMB100,644,909, divided into 100,644,909 Domestic Shares with a nominal value of RMB1.00 each. Since the establishment of our Bank, there have been several changes in the share capital of our Bank.

As of the Latest Practicable Date, the registered capital of our Bank was RMB4,971,197,344, divided into 4,971,197,344 Domestic Shares with a nominal value of RMB1.00 per share. The changes in the registered capital of our Bank since its establishment are set forth as follows:

Time[1]	Changes in the registered capital
December 29, 1998	The registered capital of our Bank was increased from RMB100,644,909 to RMB350,644,909 by issuing and allotting 50,000,000 and 200,000,000 new Domestic Shares with a nominal value of RMB1.00 each to Weihai Municipal Finance Bureau and Shandong Hi-Speed Group Company, respectively.
April 23, 2003	The registered capital of our Bank was decreased from RMB350,644,909 to RMB312,702,661 as a result of share write-off and clearance.
December 30, 2005	The registered capital of our Bank was increased from RMB312,702,661 to RMB599,860,475 by issuing and allotting 279,000,000, 4,831,910 and 3,325,904 new Domestic Shares with a nominal value of RMB1.00 each to three corporate investors, 663 individual investors and our labor union committee.[2]
December 26, 2006	The registered capital of our Bank was increased from RMB599,860,475 to RMB1,102,170,575 by issuing and allotting 494,300,000, 2,300,500 and 5,709,600 new Domestic Shares with a nominal value of RMB1.00 each to 18 corporate investors, 17 individual investors and our labor union committee. [3]
December 28, 2007	The registered capital of our Bank was increased from RMB1,102,170,575 to RMB1,300,183,283 by issuing and allotting 34,990,000, 154,200,000 and 8,822,708 new Domestic Shares with a nominal value of RMB1.00 each to two existing corporate shareholders, five new corporate investors and our labor union committee.
September 29, 2009	The registered capital of our Bank was increased from RMB1,300,183,283 to RMB2,000,000,000 by issuing and allotting 699,816,717 new Domestic Shares with a nominal value of RMB1.00 each to three then existing corporate shareholders.
July 22, 2011	The registered capital of our Bank was increased from RMB2,000,000,000 to RMB2,128,000,000 by issuing and allotting an aggregate of 128,000,000 stock dividend to the shareholders recorded on the register of members of our Bank as of December 31, 2010 in proportion to their respective shareholdings.
July 25, 2011	The registered capital of our Bank was increased from RMB2,128,000,000 to RMB2,177,742,042 by issuing and allotting 49,742,042 new Domestic Shares with a nominal value of RMB1.00 each to one then existing shareholder, namely our labor union committee.
March 22, 2012	The registered capital of our Bank was increased from RMB2,177,742,042 to RMB2,386,629,144 by issuing and allotting an aggregate of 208,887,102 stock dividend to the shareholders recorded on the register of members of our Bank as of December 31, 2011 in proportion to their respective shareholdings.
May 7, 2012	The registered capital of our Bank was increased from RMB2,386,629,144 to RMB2,808,887,102 by issuing and allotting 422,257,958 new Domestic Shares with a nominal value of RMB1.00 each to the then existing shareholders in proportion to their respective shareholdings.

Time[(1)]	Changes in the registered capital
April 7, 2013	The registered capital of our Bank was increased from RMB2,808,887,102 to RMB3,089,775,812 by issuing and allotting an aggregate of 280,888,710 stock dividend to the shareholders recorded on the register of members of our Bank as of December 31, 2012 in proportion to their respective shareholdings.
March 13, 2014	The registered capital of our Bank was increased from RMB3,089,775,812 to RMB3,398,753,393 by issuing and allotting an aggregate of 308,977,581 stock dividend to the shareholders recorded on the register of members of our Bank as of December 31, 2013 in proportion to their respective shareholdings.
July 24, 2014	The registered capital of our Bank was increased from RMB3,398,753,393 to RMB4,171,197,344 by issuing and allotting 772,443,951 new Domestic Shares with a nominal value of RMB1.00 each to three then existing shareholders.
December 29, 2018	The registered capital of our Bank was increased from RMB4,171,197,344 to RMB4,971,197,344 by issuing and allotting 800,000,000 new Domestic Shares with a nominal value of RMB1.00 each to 13 then existing shareholders.

Notes:

1. The time stated here represents the issuance date of the new business license with increased registered capital.

2. The corporate investors include one then existing shareholder and two then new investors.

3. The 18 corporate shareholders include one existing shareholder and 17 then new investors.

There were certain defects in the above changes in the Bank's registered capital including failure to prepare balance sheet and issue notice and announcement in advance during the process of decreasing the registered capital in April 2003 and comply with the procedure to appraise the assets and/or file the appraisal results with competent authorities for certain increase of the registered capital. Our PRC Legal Advisors is of the view that, these defects have no material and adverse effect on the operation of our Bank and the authenticity and effectiveness of the changes in the Bank's registered capital, and will not result in any material legal impediment on the Listing under the relevant PRC laws and regulations, because (i) the above changes in the Bank's registered capital had been verified by qualified accounting firms; (ii) there was no dispute on the legality and effectiveness of the changes in the Bank's registered capital as of the Latest Practicable Date; (iii) CBIRC Shandong Office, the competent authority, issued a confirmation that the Bank had obtained approvals from the relevant PRC banking regulatory authorities on the above changes in the registered capital; (iv) the changes of registered capital which involved the above-mentioned defects have completed the state-owned property right registration; and (v) Shandong Government issued a confirmation that the shareholding structure of the Bank is clear, there was no major dispute or potential risk on the shareholding of the Bank and the changes in the registered capital of the Bank were true and effective and in compliance with the then existing PRC laws and regulations in general.

Share transfers during the Track Record Period and up to the Latest Practicable Date

During the Track Record Period and up to the Latest Practicable Date, there were 90 transfers of Shares in the Bank between individual Shareholders involving an aggregate of 568,454,913 Shares which account for approximately 11.43% of the total issued share capital of the Bank immediately before the Global Offering. The consideration for such transfers of Shares was between RMB1.99 to RMB3.78 per Share.

Other than the above transfers of Shares between individual Shareholders, during the Track Record Period and up to the Latest Practicable Date, there were certain transfers of Shares between corporate Shareholders, the details of which are set out in the table below.

Transferor	Weihai Foreign Exchange Training Center (威海外匯業務培訓中心)	China National Heavy Vehicle Duty Truck Group Co., Ltd. (中國重型汽車集團有限公司)	Weihai Xinghai Trading Co., Ltd. (威海市興海貿易有限公司)	Weihai Xinghai Trading Co., Ltd. (威海市興海貿易有限公司)	Wendeng City Senlu Tanning Co., Ltd. (文登市森鹿製革有限公司)	Weihai Gongtian Real Estate Development Co., Ltd. (威海市工田房地產開發有限公司)	Weihai Chemicals Import & Export Co., Ltd. (威海市化工進出口有限公司)	Weihai Eastern Dragon Co., Ltd. (威海東龍實業集團有限公司)	Qilu Transportation[6]
Transferee	Shandong Bodelong Group Co., Ltd. (山東波德隆集團有限公司)	Qilu Transportation	Weihai Tianan Real Estate Development Co., Ltd. (威海天安房地產開發有限公司)	Shandong Huaxia Group Co., Ltd. (山東華夏集團有限公司)	Weihai Liyu Industrial Co., Ltd. (威海市力鈺實業有限公司)	Beijing Qinian Investment Co., Ltd. (北京祈年投資有限公司)	Shandong Baisheng Property Valuation Co., Ltd. (山東百盛房地產估價有限公司)	Shandong Zhongsu Taifu Technology Co., Ltd. (山東中塑泰富科技有限公司)	Shandong Hi-Speed Group Company
Date of share transfer agreement	March 2, 2020	December 30, 2019	December 2019	December 2019	N/A[3]	December 29, 2018	December 26, 2018	December 9, 2016[4]	N/A[7]
Number of Domestic Shares transferred	5,298,517	566,114,163	27,593,500	30,000,000	43,627,931	8,309,715	2,824,624	4,980,000	566,114,163
Purchase price	RMB15,895,551	RMB1,257,284,381.6	RMB81,400,825	RMB90,000,000	RMB122,158,206.8	RMB16,500,000	RMB8,400,000	RMB18,800,000	Nil[7]
Payment date of consideration	March 4, 2020	February 24, 2020	December 20, 2019	December 23, 2019	March 15, 2019	February 15, 2019	January 9, 2019	December 22, 2016	N/A[7]
Closing date[1]	March 6, 2020	February 13, 2020	December 20, 2019	December 20, 2019	April 11, 2019	January 14, 2019	January 8, 2019	February 17, 2017	August 7, 2020
Basis of consideration	Based on arm's length negotiations with reference to the net asset value per Share of our Bank at the time of negotiation	Based on arm's length negotiations with reference to the net asset value per Share of our Bank at the time of negotiation	Based on arm's length negotiations with reference to the net asset value per Share of our Bank at the time of negotiation	Based on arm's length negotiations with reference to the net asset value per Share of our Bank at the time of negotiation	Based on arm's length negotiations with reference to the net asset value per Share of our Bank at the time of negotiation	Based on arm's length negotiations with reference to the net asset value per Share of our Bank at the time of negotiation	Based on arm's length negotiations with reference to the net asset value per Share of our Bank at the time of negotiation	Based on the hammer price of the judicial auction of the relevant Shares. The reserve price of the judicial auction was RMB10,059,600	N/A[7]

Price per Share	RMB3.00	RMB2.22	RMB2.95	RMB3.00	RMB2.80	RMB1.99	RMB2.97	RMB3.78	Nil(7)
Discount to the initial public offering price(2)	N/A	25.78%	1.38%	N/A	6.40%	33.47%	0.71%	N/A(5)	N/A(7)
Shareholding in our Bank prior to the Global Offering	0.11%	Nil(6)	3.30%	0.96%	0.88%	0.17%	0.06%	0.14%	44.59%
Shareholding in our Bank after the Global Offering (assuming the Over-allotment Option is not exercised)	0.09%	Nil(6)	2.81%	0.82%	0.75%	0.14%	0.05%	0.12%	37.90%

Notes:

(1) This is the date on which the transfer of the relevant shares was completed.

(2) The discount is based on the indicative price of HK$3.43 per H Share (being the mid-point of the Offer Price range as stated in this prospectus) and the indicative exchange rate of HK$1=RMB0.8721.

(3) The relevant agreement is undated. As confirmed by our PRC Legal Advisors, the date of the agreement is not a compulsory requirement under the PRC laws, the relevant share transfer agreement between Wendeng City Senlu Tanning Co., Ltd. and Weihai Liyu Industrial Co., Ltd. had been duly signed and performed by the relevant parties without any claims or disputes, and the relevant Shares had been duly transferred at Qilu Equity Transaction Center (齊魯股權交易中心) on April 11, 2019.

(4) This is the completion date of the judicial auction of the relevant Shares.

(5) Shandong Zhongsu Taifu Technology Co., Ltd. purchased the Shares with a premium on the hammer price was a decision of its own during the judicial auction, the decision was made based on the then market conditions and its own judgment to the state of operation, profitability and future development of the Bank.

(6) On August 7, 2020, as one step of the Joint Reorganisation, Qilu Transportation transferred the 566,114,163 Shares in aggregate it held in our Bank to Shandong Hi-Speed Group Company. For details about the Joint Reorganisation, please refer to the paragraph headed "Joint Reorganisation of Shandong Hi-Speed Group Company and Qilu Transportation" in this section.

(7) The share transfer was made in accordance with the Notice regarding Joint Reorganisation at nil consideration and no share transfer agreement had been entered into by Qilu Transportation and Shandong Hi-Speed Group Company. The relevant Shares had been duly transferred at Qilu Equity Transaction Center (齊魯股權交易中心) on August 7, 2020. For details about the Notice regarding Joint Reorganisation, please refer to the paragraph headed "Joint Reorganisation of Shandong Hi-Speed Group Company and Qilu Transportation" in this section.

WITHDRAWAL OF THE APPLICATION FOR LISTING ON THE SHANGHAI STOCK EXCHANGE

We submitted an application for listing on the Shanghai Stock Exchange on April 1, 2016 (the "**A-share Application**") and subsequently received several rounds of enquiries from the CSRC during the CSRC's vetting process (the "**Enquiries**") requesting further details on the operational and financial information, compliance records and other related-matters of our Bank. We had been actively addressing the Enquiries until we decided to withdraw our A-Share Application due to the then uncertain listing timetable in light of the overall A-share vetting process, and with a view to replenishing our capital by other means of fund raising. As a result, we submitted an application to voluntarily withdraw our A-share Application and the CSRC approved the withdrawal in August 2018.

To the best of our Directors' knowledge, our Directors are not aware of (i) any findings revealed by the CSRC in the A-share Application that would affect the Bank's suitability for listing on the Hong Kong Stock Exchange; (ii) any material matters that need to be drawn to the attention of the Hong Kong Stock Exchange in relation to the A-share Application; and (iii) any other material matters relating to the A-share Application and the Enquiries which are relevant to the Listing and should be reasonably highlighted in this prospectus for investors to form an informed assessment of our Bank.

Based on the independent due diligence performed by the Joint Sponsors, the Joint Sponsors are not aware of (i) any findings revealed by the CSRC in the A-share Application that would affect the Bank's suitability for listing on the Hong Kong Stock Exchange; and (ii) any material matters that need to be drawn to the attention of the Hong Kong Stock Exchange in relation to the A-share Application.

SUBSIDIARY OF THE BANK

As of the Latest Practicable Date, our Bank had one subsidiary, Tongda Financial Leasing Co., which was established in Jinan, Shandong Province, the PRC on June 6, 2016 with a registered capital of RMB1.1 billion. As of the Latest Practicable Date, Tongda Financial Leasing Co. was owned as to 59.09% by our Bank, 31.82% by Shandong New Beiyang Information Technology Co., Ltd. (山東新北洋信息技術股份有限公司), the shares of which are listed on Shenzhen Stock Exchange (stock code: 002376), and 9.09% by Wendeng City Senlu Tanning Co., Ltd. (文登市森鹿製革有限公司). Tongda Financial Leasing Co. is principally engaged in financial leasing.

ISSUANCE OF CAPITAL BONDS

Issuance of Tier-two Capital Bonds

As approved by CBRC Shandong Office and PBoC, in September 2015, our Bank issued tier-two capital bonds in a principal amount of RMB3.0 billion with a term of ten years. The annual interest rate of the bonds is 5.2%.

As approved by CBRC Shandong Office and PBoC, in July 2017, our Bank issued tier-two capital bonds in a principal amount of RMB2.0 billion with a term of ten years. The annual interest rate of the bonds is 5.0%.

Issuance of Perpetual Bond

In November 2019, as approved by CBIRC Shandong Office and the PBoC, our Bank issued perpetual bonds in an aggregate principal amount of RMB3.0 billion with an interest rate of 5.4%.

For details of the Bank's issuance of debt securities, please see "Financial Information — Capital Resources — Debt — Debt Securities Issued".

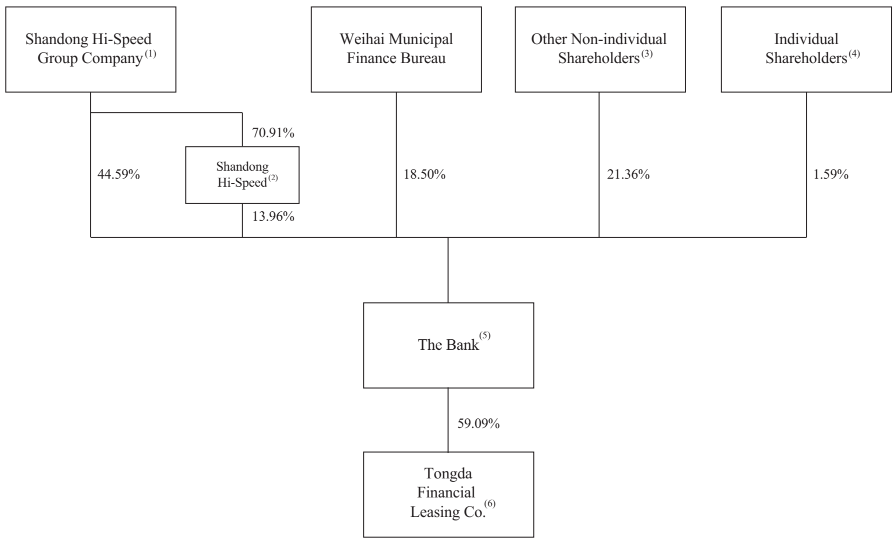
OUR SHAREHOLDING AND GROUP STRUCTURE

Shareholding Structure

As of the Latest Practicable Date, our Bank had 41 non-individual Shareholders who in the aggregate held approximately 98.41% in the registered capital of our Bank and 997 individual Shareholders who in the aggregate held approximately 1.59% in the registered capital of our Bank. All of these Shareholders are holders of Domestic Shares. The Shareholders directly holding 5% or more of the share capital of our Bank include Shandong Hi-Speed Group Company, Weihai Municipal Finance Bureau and Shandong Hi-Speed, which directly held approximately 44.59%, 18.50% and 13.96% of the share capital of our Bank, respectively. To the best knowledge of the Bank after making due and careful inquiries and as confirmed by our PRC Legal Advisor, except that Shandong Hi-Speed Group Company, directly and indirectly, holds 70.91% of the registered capital of Shandong Hi-Speed in aggregate, the Shareholders directly holding 5% or more of the share capital of our Bank are independent from each other.

As of the Latest Practicable Date, our Bank was unable to verify the identity and shareholding of one corporate Shareholder and 16 individual Shareholders, which held approximately 0.02% and 0.01% of the share capital of our Bank, respectively. The Directors believe, and our PRC Legal Advisors is also of the view that, the existence of such Shareholders whom our Bank is unable to contact does not have a material adverse impact on our Bank's shareholding structure, corporate governance, business and operations and the Listing.

The following chart sets out the shareholding and group structure of our Bank as of the Latest Practicable Date and immediately prior to the Global Offering:



Notes:

(1) Shandong Hi-Speed Group Company is our controlling Shareholder and one of our state-owned Shareholders. It is ultimately owned by State-owned Assets Supervision and Administration Commission of People's Government of Shandong (山東省人民政府國有資產監督管理委員會) as to 90.0% and primarily engaged in the investment, construction and operation of highways, bridges, railways. Shandong Hi-Speed Group Company ultimately holds 70.91% of the share capital of Shandong Hi-Speed and is hence the controlling shareholder of Shandong Hi-Speed. Shandong Hi-Speed directly holds 13.96% of the share capital of our Bank. As such, Shandong Hi-Speed Group Company, directly and indirectly, holds approximately 58.54% of the share capital of our Bank.

(2) Shandong Hi-Speed is one of our substantial Shareholders and state-owned Shareholders. It is ultimately owned by Shandong Hi-Speed Group Company as to 70.91% and primarily engaged in the investment and operation of high-grade highways, bridges, tunnels and other transportation infrastructure.

(3) As of the Latest Practicable Date, 38 non-individual Shareholders held an aggregate of approximately 21.36% of the share capital of our Bank. None of such non-individual Shareholders held 5% or more of the share capital of our Bank. The 38 non-individual Shareholders are China National Heavy Duty Truck Group Company Limited (中國重型汽車集團有限公司), Weihai Tianan Real Estate Development Co., Ltd. (威海天安房地產開發有限公司), Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. (山東環球漁具股份有限公司), Shandong Homey Aquatic Development Co., Ltd. (山東好當家海洋發展股份有限公司), Wendeng City Senlu Tanning Co., Ltd. (文登市森鹿製革有限公司), Weihai Xinghai Trading Co., Ltd. (威海興海貿易有限公司), Hongan Group Co., Ltd. (宏安集團有限公司), Shandong Huaxia Group Co., Ltd. (山東華夏集團有限公司), Weihai Liyu Industrial Co., Ltd. (威海市力鈺實業有限公司), Jinghai Group Co., Ltd. (靖海集團有限公司), Weihai Minshang Investment Co., Ltd. (威海閩商投資股份有限公司), Weihai Guangtai Airport Equipment Co. Ltd. (威海廣泰空港設備股份有限公司), Rongcheng Hawtai Motor Co., Ltd. (榮成華泰汽車有限公司), Weigao Group Co., Ltd. (威高集團有限公司), Weihai Haoxin Trading Co., Ltd. (威海浩信貿易有限公司), Weihai Deshun Property Development Co., Ltd. (威海市德順房地產開發有限公司), Jinhou Group Co., Ltd. (金猴集團有限公司), Beijing Qinian Investment Co., Ltd. (北京祈年投資有限公司), Shandong Lvyuan Environmental Technology Group Co., Ltd. (山東綠苑環境科技集團有限公司), Weihai Lantian Hotel (威海藍天賓館), Shandong Zhongsu Taifu Technology Co., Ltd. (山東中塑泰富科技有限公司), Weihai Jinbi Real Estate Information Consultancy Co., Ltd. (威海金碧房產資訊諮詢有限公司), Shandong Bodelong Group Co., Ltd. (山東波德隆集團有限公司), Weihai Jieba Property Services Co., Ltd. (威海市潔霸物業服務有限公司), Weihai Hengtai Real Estate Development Co., Ltd. (威海市亨泰房地產開發有限公司), Weihai Xinxiangyu Construction Engineering Co., Ltd. (威海新祥裕建築工程有限公司), Yantai Ocean Oil Co., Ltd. (煙台海洋石油有限公司), Weihai Economic Technology Development Zone Jinghua Export Commodity Base Co., Ltd. (威

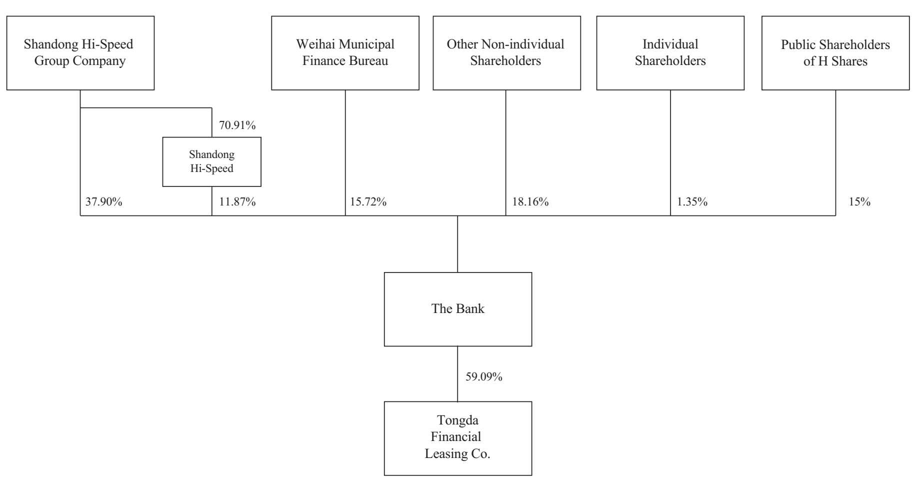
海經濟技術開發區菁華出口商品基地有限公司), Weihai Haomai Property Development Co., Ltd. (威海豪邁房地產開發有限公司), Shandong Baisheng Land Real Estate Assets Evaluation and Mapping Co., Ltd. (山東百盛土地房地產資產評估測繪有限公司), Weihai Jinbi Architectural Engineering Co., Ltd. (威海市金壁建築工程有限公司), Weihai Guheng Building Machinery Co., Ltd. (威海固恒建築機械有限公司), Weihai Public Transportation Group Co., Ltd. (威海公共交通集團有限公司), Weihai Haima Carpet Group Co., Ltd. (威海海馬地毯集團有限公司), Weihai Shunda Industrial Co., Ltd. (威海順達實業股份公司), Weihai Xiandai Industrial Design Co., Ltd. (威海市現代工業設計有限公司), Weihai Kaiyuan Road Construction Co., Ltd. (威海開元公路工程有限公司), and Weihai Eastern Dragon Co., Ltd. (威海東龍實業集團有限公司).

(4) As of the Latest Practicable Date, 997 individual Shareholders held an aggregate of approximately 1.59% of the share capital of our Bank.

(5) As of the Latest Practicable Date, to the best knowledge of our Bank, no Shares were pledged, and 22,941,718 Shares (representing 0.46% of the share capital of our Bank) held by three Shareholders were frozen by several judicial bodies. The PRC Legal Advisors have confirmed that without the permission of relevant court, Shares frozen by judicial bodies shall not be transferred and the holders of such Shares shall not pledge or create any encumbrances on such Shares and no dividends for such Shares shall be distributed to the relevant Shareholders. The PRC Legal Advisors is of the view that the above freezing of Shares will not have any material adverse effect on the shareholding structure and continued operations of the Bank and will not result in any material legal impediment under the relevant PRC laws and regulations in relation to the Listing.

(6) As of the Latest Practicable Date, the remaining 40.91% equity interest of Tongda Financial Leasing Co. was held as to 31.82% by Shandong New Beiyang Information Technology Co., Ltd. (stock code: 002376) and 9.09% by Wendeng City Senlu Tanning Co., Ltd. (文登市森鹿製革有限公司). Shandong New Beiyang Information Technology Co., Ltd. is a substantial shareholder of Tongda Financial Leasing Co. and therefore is a connected person of our Bank under the Listing Rules. Wendeng City Senlu Tanning Co., Ltd. also held 1.39% of the share capital of our Bank as of the Latest Practicable Date and is an independent third party to our Bank.

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



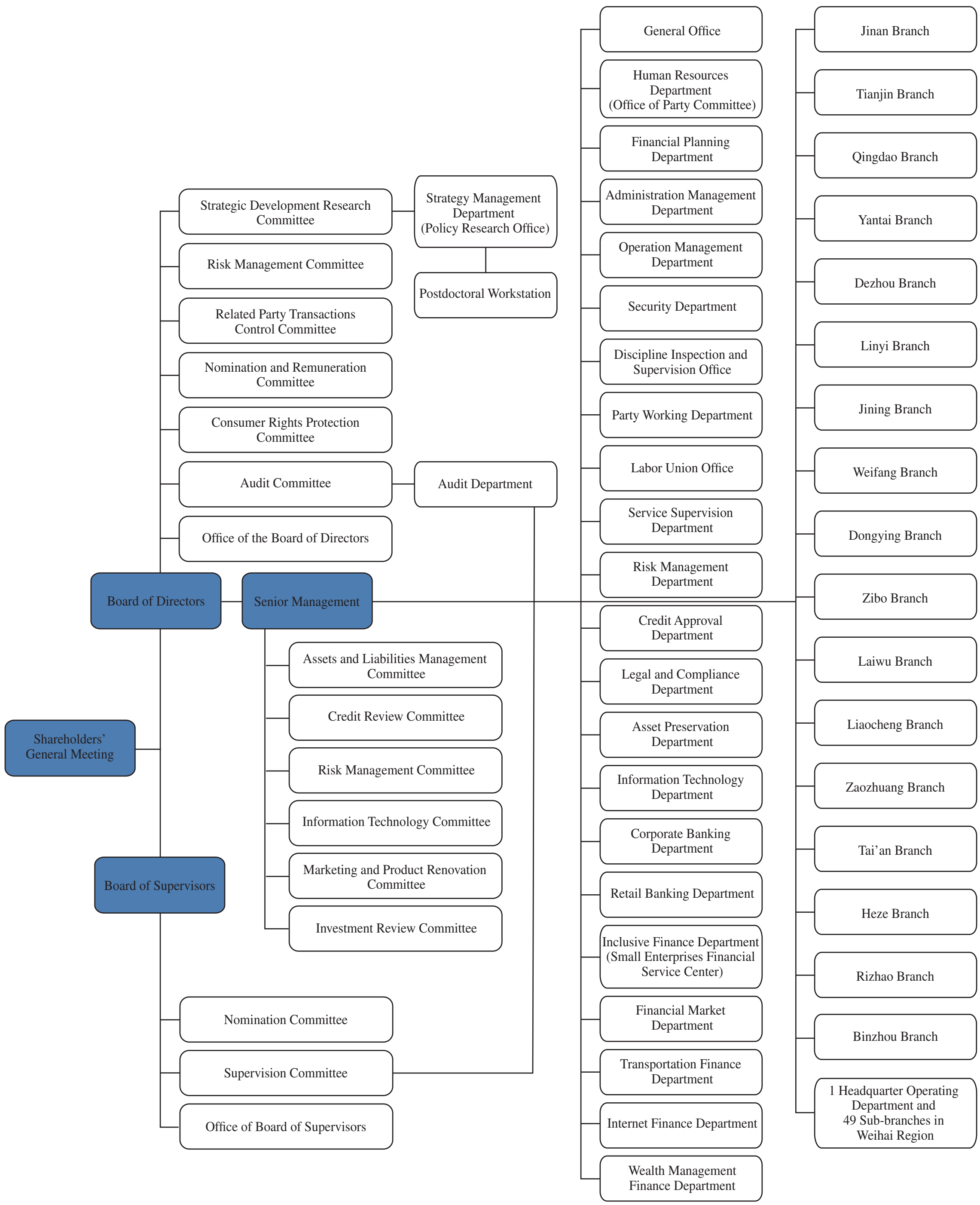
Joint Reorganisation of Shandong Hi-Speed Group Company and Qilu Transportation

In July 2020, the People' Government of Shandong Province approved the joint reorganisation plan of Shandong Hi-Speed Group Company and Qilu Transportation (the "**Reorganisation Plan**"). According to the Reorganisation Plan, Qilu Transportation will be deregistered and merged into Shandong Hi-Speed Group Company. Shandong Hi-Speed Group Company will survive after the merger. The assets and liabilities, businesses, staff, agreements, qualifications and any other rights and obligations of Qilu Transportation will be acquired by Shandong Hi-Speed Group Company, and the subsidiaries and equity interest held by Qilu Transportation, including the Shares held by Qilu Transportation in our Bank, will be transferred to Shandong Hi-Speed Group Company as approved by the People's Government of Shandong Province (the "**Joint Reorganisation**").

In August 2020, State-owned Assets Supervision and Administration Commission of People's Government of Shandong (山東省人民政府國有資產監督管理委員會) issued a notice regarding the Reorganisation Plan to Qilu Transportation and Shandong Hi-Speed Group Company, urging them to perform the Joint Reorganisation (the "**Notice regarding Joint Reorganisation**"). Accordingly, on August 7, 2020, as one step of the Joint Reorganisation, Qilu Transportation transferred the 566,114,163 Shares in aggregate it held in our Bank to Shandong Hi-Speed Group Company. As of the Latest Practicable Date, Shandong Hi-Speed Group Company is interested in 2,910,381,485 Shares in aggregate (representing approximately 49.76% of total issued share capital of our Bank as enlarged by the Global Offering (assuming the Over-allotment Option is not exercised)) and remains as our Controlling Shareholder.

OUR ORGANIZATIONAL STRUCTURE

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



Corporate Governance Structure

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

Shareholders' general meeting

Shareholders' general meeting is the highest organ of authority of our Bank. Its principal responsibilities include determining the operation strategies and significant investment plans of our Bank, electing and replacing Directors and non-employee representative Supervisors and determining their remuneration, reviewing and approving the annual financial budget plans, financial accounting plans, profit distribution plans and loss recovery plans, determining the merger, spin-off, dissolution and liquidation or change of corporate form of the Bank, amending the Articles of Association.

Board of Directors

The Board of Directors is accountable to the Shareholders' general meeting. Its principal responsibilities include convening the Shareholders' general meeting, reporting to the Shareholders' general meeting and implementing the resolutions of the Shareholders' general meeting, determining our Bank's development strategies, operation programs and investment plans, formulating the annual financial budget plans, financial accounting plans, profit distribution plans and loss recovery plans, formulating the plans for merger, spin-offs, dissolution and change of corporate form of our Bank, formulating the proposed amendments to the Articles of Association, formulating the basic management system of the Bank.

The Board of Directors has established six special committees, including Strategic Development Research Committee, Risk Management Committee, Related Party Transactions Control Committee, Nomination and Remuneration Committee, Audit Committee and Consumer Rights Protection Committee.

Board of Supervisors

The Board of Supervisors is accountable to the Shareholders' general meeting. Its principal responsibilities include supervising the financial operations of the Bank and performance of the Board of Directors and the senior management. The Board of Supervisors conducts special surveys on specific areas and attends important meeting in order to understand the operation and management of the Bank and provides supervisory advice.

Senior Management

The senior management is responsible for the daily operation of our Bank. The president is accountable to the Board of Directors and may organize and conduct the business management of our Bank within the authorization of the Board of Directors and in accordance with laws, administrative regulations and other rules and the Articles of Association. Our Bank has appointed two vice presidents and other senior management to work with the president of our Bank and perform their respective management responsibilities.

Our Bank has established a committee for the Communist Party of China (the "**CPC**"), which shall play a core leadership role and a core political role. The committee primarily assumes the following responsibilities:

- thoroughly implementing the path, principles, policies of the party, and opinions and measures of resolutions and decisions of the CPC Central Committee; communicating the work instructions of governments and supervisory departments at all levels, and studying and implementing the opinions and measures;

- the ideological construction, organizational construction, style construction, spiritual civilization construction, corporate culture construction, combat corruption and uphold integrity for the CPC in bank wide; important issues in the construction of the workers' congress, unions, the Communist Youth League and the management team members, and the ideological work of the entire bank;

- formulating, modifying and abolishing important rules and regulations within the party of the whole bank;

- planning work and deploying of major activities of the party of the whole bank;

- establishing, adjusting and cancelling the party working authorities and responsible organizations across the bank, as well as collecting, using and managing the party fees of the whole bank;

- making decisions to convene a party membership meeting of the whole bank to discuss the documents to be submitted to the party membership meeting for consideration; electing members, secretary and deputy secretary of the party committee; and approving the secretary and deputy secretary elected at the plenary meeting of the disciplinary committee;

- studying the opinions and measures for the implementation of the "three majors and one greatness" system to ensure that the "three majors and one greatness" system is strictly implemented throughout the bank;

- studying on matters such as the nomination, recommendation, appointment, adjustment and dismissal of senior management and middle-class cadres; discussing and deciding on important matters such as important policy and system reform in relation to cadres and organizational human resources; discussing and deciding on matters such as the handling of discipline-violating and unqualified party members, according to the regulations on cadre and party member management;

- studying important issues such as staffing and recruitment plans, major reforms, incentive policies, salary distribution, important rewards and punishments throughout the bank;

- implementing important measures in line with the Bank's talent strategy, talent training plan and talent management as a whole;

- submitting important documents to the higher party organization, including summary and report of the major work undertaken by the party committee, as well as important documents released to its affiliated party organization;

- listening to the work report of the management team members regularly, and provide guidance and supervision on major matters and important work of the whole bank; and

- other major issues that should be studied and decided by the party committee.

OVERVIEW

We are the only city commercial bank with outlets that cover all prefecture-level cities in Shandong Province, which is the third largest province in the PRC in terms of GDP. Adhering to our regional positioning of "Based in Shandong, Refined Efforts, Characteristic Development" ("立足山東，精耕細作，特色發展"), our overall business has sustained a steady and sound growth in recent years. We ranked the 80th among the "Top 100 PRC Banks" in terms of core tier-one capital as of December 31, 2018 by the CBA, moving up 15 places compared with our ranking in terms of core tier-one capital as of December 31, 2016. In addition, we were rated as the "National Top 10 City Commercial Bank" for four consecutive years from 2016 to 2019 by Financial News (金融時報), a Chinese magazine, in recognition of our business performance and management capabilities. We ranked third among all city commercial banks headquartered in Shandong Province in terms of total assets, total deposits from customers and total loans to customers as of December 31, 2019.

We strive to focus on high-end corporate banking customers in the corporate banking business by relying on supports from our shareholders and the government, as well as our extensive business network coverage, to capture high-quality customers through providing comprehensive financial services, which in turn attributes to the strong competitiveness in our "Broad Corporate Banking". In the retail banking business, we stay close to the mass market of retail banking customers (i.e., micro and small enterprises as well as individuals), continuously enrich our "Broad Retail" product portfolio, and, at the same time, expand the "Broad Retail Banking" business, in order to accumulate significant differentiation advantages. We foster our core competitiveness by strengthening technology enabling, continuously enhancing the digital transformation of our products and services. As of March 31, 2020, our mobile banking customers have reached approximately 1.1 million, with the annual transaction amount for the year ended December 31, 2019, exceeding RMB120.0 billion.

As part of our business strategies, we have established an integrated marketing system, which encourages cooperation and cross-selling of products and services among different departments and business lines, so as to facilitate the joint development of our corporate and retail banking businesses. We offer a variety of standardized and differentiated banking products and services to our retail and corporate banking customers through our electronic banking channels, branches and outlets. We have established an extensive business network covering the whole Shandong Province and fully penetrated into regions in Shandong Province and Tianjin Municipality that we considered with strong economic growth.

Our substantial shareholders, including Shandong Hi-Speed Group Company, Shandong Hi-Speed and, Weihai Municipal Finance Bureau, have been supportive throughout our development. Capitalizing on the support from our Shareholders, our deep knowledge on the local economies and policies promulgated by the PRC Government in recent years, we have strategically expanded into industries that enjoy strong business prospect and support from the PRC Government such as high-end manufacturing industry, medical and health industry, pharmaceutical manufacturing industry, transportation industry, marine industry, etc.. As of the Latest Practicable Date, our corporate banking customers included many quality state-owned enterprises and private enterprises in Shandong Province and Tianjin Municipality, covering a wide range of industries. As part of our strategy to expand our business operation outside Shandong Province and to broaden our services, we also established a financial leasing company, Tongda Financial Leasing Co. in June 2016. Tongda Financial Leasing Co. was the first financial leasing company in Shandong Province established by a commercial bank as a promoter. During the Track Record Period, our profit from Tongda Financial Leasing Co. increased from RMB102.3 million in 2017 to RMB239.8 million in 2019, representing a CAGR of 53.1%. Our profit from Tongda Financial Leasing Co. increased from RMB57.6 million for the three months ended March 31, 2019 to RMB87.1 million for the three months ended March 31, 2020.

During the Track Record Period, our total assets increased by 9.9% from RMB204,497.9 million as of December 31, 2017 to RMB224,635.5 million as of December 31, 2019 and further increased to RMB235,290.2 million as of March 31, 2020. As of March 31, 2020, our deposits from customers and net loans and advances to customers amounted to RMB156,635.1 million and RMB101,205.7 million, respectively. Our net profit amounted to RMB1,602.8 million, RMB1,017.3 million and RMB1,523.7 million for the years ended December 31, 2017, 2018 and 2019, respectively, and for the three months ended March 31, 2019 and 2020, our net profit amounted to RMB376.1 million and RMB391.8 million, respectively. While we focus on achieving growth in our business, we have also maintained prudent risk management and internal control with an emphasis on maintaining sound asset quality. As of December 31, 2017, 2018, 2019 and March 31, 2020, our NPL ratios was 1.47%, 1.82%, 1.80% and 1.80%, respectively.

During the Track Record Period and up to the Latest Practicable Date, we received numerous awards and honors as recognition of our outstanding business performance and management capabilities. Some of our prominent honors and awards during this period include:

Year	Award	Event/ Organization/Media
2020	Ranking 80th in terms of core tier-one capital as of December 31, 2018 on the list of "Top 100 PRC Banks"	CBA
2020	The Excellent Financial Bonds Issuing Institution	China Central Depository & Clearing Co., Ltd.
2019	Top 10 Mobile Banking Innovation Award	The Chinese Banker
2019	National Top 10 City Commercial Banks	Financial News
2018	Top 10 Financial Product Innovation Award	The Chinese Banker
2018	National Top 10 City Commercial Banks	Financial News
2017	National Top 10 City Commercial Banks	Financial News

OUR COMPETITIVE STRENGTH

Capitalizing on our prominent regional advantages and comprehensive network layout, we have become the third largest city commercial bank in Shandong Province

We are the only city commercial bank in Shandong Province with outlets that cover the whole province and the only city commercial bank headquartered in Weihai City. Adhering to our regional positioning of "Based in Shandong, Refined Effort and Characteristic Development" ("立足山東，精耕細作，特色發展"), we have benefitted from the economic development and favorable government policies in both Shandong Province and Weihai City.

Shandong Province is one of the leading provinces in China in terms of economic strength, which recorded a GDP of RMB7.11 trillion in 2019 according to NBS, representing a 5.5% increase from that in 2018 calculated on comparable price basis. Shandong Province was ranked third in 2019 and in the top three among the 31 provincial-level administrative regions in China in terms of GDP for each of 20 consecutive years from 1999 to 2018. Weihai City is one of the most developed cities in Shandong Province in terms of economic strength as demonstrated by it being ranked second among all the prefecture-level cities in Shandong Province in terms of GDP per capita for each of the six consecutive years from 2012 to 2017. In addition, Tianjin Municipality, where our branches outside of Shandong Province are located, is one of the most developed cities in China in terms of economic strength as demonstrated by it being ranked top three among the 31 provincial-level administrative regions in China in terms of GDP per capita for the 19 consecutive years from 1999 to 2017. Tianjin Municipality ranked seventh among the 31 provincial-level administrative regions in China in terms of GDP per capita for 2019.

The PRC Government attaches great importance to the economic development of Shandong Province and has accordingly issued a number of strategic policies. In September 2015, the State Council approved the *Outline of Cooperative Development in Bohai Rim Region* (《環渤海地區合作發展綱要》), which specifies Shandong Peninsula as an important gateway for opening up in Northern China, an important base for advanced manufacturing and high-tech industries, and a marine economy pilot area, which shall continuously enhance its penetration into southeastern area of Bohai Rim Region. In January 2018, the State Council approved the *Overall Plan for Building of Comprehensive Experimental Area for Replacing Old Growth Drivers with New Ones in Shandong* (《關於山東新舊動能轉換綜合試驗區建設總體方案》) to speed up building of the comprehensive experimental area for replacing old economic growth drivers with new ones in Shandong Province. In August 2019, upon approval by the State Council, China (Shandong) Pilot Free Trade Zone was formally established, which again resulted in Shandong Province achieving a new level of opening up its economy. In September 2019, the State Council approved the *Overall Plan for the Construction of China-Shanghai Cooperation Organization Demonstration Zone for Local Economic and Trade Cooperation* (《中國–上海合作組織地方經貿合作示範區建設總體方案》) to promote the establishment of the China-Shanghai Cooperation Organization Demonstration Zone in Qingdao City, Shandong Province. All of these national strategies allow Shandong Province to continuously enjoy enhanced prominent regional advantages, being a hub for sea and land transportation in line with the "Belt and Road" initiative, a hub connecting Japan, South Korea and Eurasia, and a junction of many key regions supported by national strategies, including Bohai Economic Rim, Central Plains Economic Region, core area of China-South Korea Free Trade Zone and the Beijing-Tianjin-Hebei Region.

Our headquarters is located in Weihai City of Shandong Province, which is the city in China with the closest proximity to Seoul, South Korea. In 2015, Weihai City was designated as the Pilot Area of China-South Korea Free Trade Zone for Local Economic Cooperation. In addition, Weihai City, being the center of the port cluster in North Asia, links Bohai Bay and Liaodong Bay. As a result, it enjoys prominent regional advantages and possesses related industry features. In April 2017, the State Council approved the *Overall Urban Plan (2011-2020) for Weihai City* (《威海市城市總體規劃(2011-2020年)》), positioning Weihai City as a regional hub city in Shandong Peninsula and an important marine industry base and coastal tourism city. With continuous implementation of strategies to promote marine industries, rural revitalization and urban internationalization, Weihai City has experienced an increasing momentum for economic development in recent years.

We are a city commercial bank in Shandong province with a comprehensive network that, as of the Latest Practicable Date, comprised our headquarters in Weihai City, 16 branches in Jinan, Qingdao, Yantai and other cities in Shandong Province and 92 sub-branches in Shandong Province. Adhering to the development strategies in line with regional economic characteristics, each of our branches in the Shandong Province has achieved steady growth in various business lines, and we, as a result, have become a major driving force in promoting the economic development of Shandong Province.

Furthermore, according to *Coordinated Development Outline of the Beijing-Tianjin-Hebei Region* (《京津冀協同發展綱要》), Tianjin Municipality is positioned as the national R&D base for advanced manufacturing, the core region for international shipping in Northern China, the financial innovation operation pilot zone and the leading reform and opening-up zone in China. It has also benefited from multiple national strategies, including those in relation to the development and opening up of Binhai New Area, Tianjin Free Trade Zone and National Innovation Demonstration Area. We established our Tianjin branch in March 2009, seizing local economic growth with a focus on the real economy and serving financial needs of SMEs. Our outlets covering nine districts in Tianjin Municipality.

Capitalizing on our prominent regional advantages and comprehensive business network layout, we have achieved steady and sound development in all business lines in recent years. As a result, we have become the third largest city commercial bank in Shandong Province. As of December 31, 2019, our total assets amounted to RMB224.6 billion, ranking third among the 14 city commercial banks in Shandong Province. We are the largest city commercial bank headquartered in Weihai City and the third largest city commercial bank headquartered in Shandong Province, in terms of total customer loans and total deposits as of December 31, 2019, respectively. Leveraging our sustained business growth, province-wide network layout and leading market position, we have managed to continuously achieve economies of scale, resulting in the continuous improvement of operating results and service capabilities. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, our cost-to-income ratio were 35.89%, 34.23%, 28.68%, 30.75% and 23.52%, respectively, presenting a continuous decrease in each of those years; our operating revenue amounted to RMB3,908.0 million, RMB3,833.6 million, RMB4,947.2 million, RMB1,159.1 million and RMB1,465.1 million, respectively; our net profits amounted to RMB1,602.8 million, RMB1,017.3 million, RMB1,523.7 million, RMB376.1 million and RMB391.8 million, respectively.

We have made consecutive strategic breakthroughs by effectively capturing opportunities arisen from favorable policies. We are one of the first batch of city commercial banks that acquired the qualification for asset securitization business in Shandong Province, and successfully issued the first tranche of credit asset securitization products in June 2015. Our Bank was also the first city commercial bank that has been approved to establish a financial leasing company in Shandong Province. Accordingly, we established our subsidiary, Tongda Financial Leasing Co., in June 2016. In the meantime, we have been actively exploring other business initiatives to extend our comprehensive business coverage in line with the development of regulatory environment. In November 2019, we have successfully issued RMB3.0 billion perpetual bonds, becoming one of the first batch of city commercial banks in China, and the first city commercial bank in Shandong Province, who has successfully issued perpetual bonds.

We enjoy strong support from our resourceful and diversified shareholders base, a distinctive corporate culture and an experienced management team as well as quality employees with strong team spirit and dedication.

We have received long-term support from our substantial shareholders, who helped us tap into quality customer pools, thereby resulting in a harmonious and win-win synergistic effect. Our Shareholders include Shandong Hi-Speed Group Company, a large state-owned enterprise and Weihai City Municipal Bureau. Our Shareholders also include quality local enterprises in Weihai City. We fully leverage our Shareholders' strengths in their respective industries to develop featured financial products and services for key industries, such as transportation, marine aquaculture and medical equipment. In addition, our Shareholders have provided us with strong support in acquiring and retaining customers and as well as developing and reforming our featured products and services. In particular, capitalizing on our Controlling Shareholder, Shandong Hi-Speed Group Company's strengths in transportation-related business and customer resources, we have established the Transportation Finance Department in 2014 to provide integrated services to various large and medium-sized enterprises operating in transportation infrastructure, transportation services and transportation equipment manufacturing, as well as their upstream and downstream customers. With the support from quality customers including Shandong Hi-Speed Group Company, we have seen robust development and made remarkable achievements in transportation finance sectors in recent years.

Recognizing the importance of corporate culture to the development of banks, we emphasize the establishment of corporate culture and its continuous enrichment. We have formed a corporate culture system which has distinctive characteristics and is deeply rooted in people's minds according to five modules, namely, "Vision, Mission, Core Value, Concepts Group and Working Ethics" ("願景、使命、核心價值觀、理念群和職業意識"). We pay particular attention to the role of execution in our overall strategic development, and have established a rigorous, standardized, pragmatic and efficient execution culture with supervision as the core, in particular, with strict supervision on our systems, procedures and results. Our corporate culture received the first prize for Innovative Achievements in Modernized Enterprise Management ("企業管理現代化創新成果") in Shandong Province, second prize for Outstanding Achievements in Corporate Culture in China ("全國企業文化優秀成果"), and the Demonstration Unit for Corporate Culture Building in the New Era ("新時代企業文化建設示範單位").

We have an experienced and visionary management team. This professional and stable senior management team has profound experience in the financial industry and holds valuable practical experience in relation to our innovation. Our senior management remains stable, among whom, seven incumbent senior management personnel have worked with us for 20 years on average. They are familiar with business development and operating decisions of the Bank and are equipped with excellent strategic vision and management capabilities. A united and stable management team helps the Bank to maintain a stable strategic direction and a stable business style. Mr. TAN Xianguo, our Chairman of the Board, has more than 27 years of experience in the banking industry and has worked at our bank for almost 23 years since our inception holding various positions including the vice president, the chairman of the Board of Supervisors, the president and the chairman of the Board. Dr. MENG Dongxiao, the president of our Bank, has over 16 years working experience in the banking industry. Since he joined us in 2016, he has worked as the vice president and the president of our Bank.

We have a highly qualified and united team of talented employees. We believe that one of our key competitivenesses is attributable to our high quality staff who cooperate in working with sincerity. As of March 31, 2020, we had 2,945 regular employees who aged 34.3 on average, among whom, 375 have a master's degree or above, accounting for 12.7%, and 2,334 have a bachelor's degree, accounting for 79.3%. We successively hold a broad range of quality training projects designed to continuously improve the learning, researching, management and guiding ability of management personnel at all levels and to optimize our cross-selling results among different business lines.

Since 2017, we have regularly selected and sent middle-level and senior management to participate in the overseas study and training programs held at various well-known universities, including Harvard University and Cambridge University. Through these programs, our management have received training on operating models of international financial systems and broadened their international perspective. In 2010, we became the first financial institution in Shandong Province to establish a post-doctoral research workstation, where we cooperated with Peking University to jointly recruit, manage and cultivate post-doctoral researchers, making this workstation a professional platform for training, attracting and employing top talents. In recent years, we have further implemented the talent exceptive admission system

(“人才破格制”). In 2019, we promoted 151 managers at or above the middle level in our sub-branches, among whom around 87.4% of them are aged 40 or less. As of March 31, 2020, among all of 563 managers at or above the middle level in our sub-branches, 322 are aged 40 or less, accounting for 57.0%, demonstrating a distinctive professional, knowledgeable and youthful team structure. We have attached great importance to a team oriented culture and implemented bank-wide programs to facilitate employees’ recognition of such values, and their determination to uphold the spirit of dedication, professionalism, innovation and efficiency. Over the years, our employees have worked closely with positive spirit, great confidence, enthusiasm and strong morale, representing a powerful driver for our sustainable development.

We have established a “Broad Corporate Banking” business with strong competitiveness, where we focus on high-end customers and develop transportation finance business and other characteristic businesses, and which is in alignment with the regional economic development

Our corporate banking business focuses on high-end customers. Leveraging our in-depth understanding of the economic structure transformation and development trends in Shandong Province and Weihai City and capitalizing on our advantages in terms of shareholders’ background, government support and comprehensive network coverage, we strive to attract and retain corporate banking customers in government financial sectors, transportation financial industries, as well as those enterprises with leading industry positions or strong technology capabilities such as high-end manufacturing industry, medical and health industry, pharmaceutical manufacturing industry, transportation industry, marine industry, etc. In serving these clients, we offer comprehensive financial products and services, including deposit and loan services, settlement, supply chain finance, bills, investment banking and financial leasing. Such products and services portfolio reflect the strong competitiveness of our Broad Corporate Banking business. In line with our Broad Corporate Banking business’s development strategy, we leveraged our distinctive competitive advantages in various sectors, including transportation finance, government finance, marine finance and technology finance, and our rapidly growing financial leasing business, to achieve substantial improvement in our capability of offering comprehensive services. In the meantime, we have enhanced support for business expansion and revenue growth through various management mechanisms, including establishing a headquarters-to-headquarters platform, managing clients based on lists, marketing to cover the entire industry or value chain, promoting technology applications and encouraging collaboration among different business lines. As of December 31, 2017, 2018 and 2019 and March 31, 2020, our total corporate loans amounted to RMB51,197.7 million, RMB53,410.6 million and RMB63,499.1 million and RMB70,790.8 million, respectively, and our total corporate loans between the year 2017 and 2019 representing a CAGR of 11.4%.

- **We have developed a distinctive transportation finance business.** Capitalizing on the strength of our Controlling Shareholder, Shandong Hi-speed Group Company, in terms of business and customer resources, we have established our Transportation Finance Department in 2014. Through this professional team with a flat management structure, we offer comprehensive services for large and medium-sized enterprises in the infrastructure, transportation and equipment manufacturing sectors of the transportation industry, as well as their upstream and downstream entities along the industry value chain. In addition, we have successively launched measures to promote the development of transportation finance business, including innovation of commercial bill settlement, where we promote featured commercial bill settlement focusing on the settlement of project funds. This product is designed to enhance project owners' creditworthiness, as project owners have gradually become increasingly receptive to the use of commercial bills as a settlement medium. As of December 31, 2019, the aggregated amount of commercial acceptance bills that we have issued exceeded RMB2.0 billion. In addition, we launched a supply-chain loan product, Contract Loan ("合同貸") (the "**Contract Loan**") for subcontractors, where we take into account contracts between relevant general contractors and subcontractors in evaluating credit risks. As of December 31, 2019, the total Contract Loans we have granted amounted to RMB115.0 million. In respect of innovation of logistics finance, we cooperate with a leading logistics company in the PRC to launch a logistics settlement platform named as Car-Free Carrier ("無車承運人") (the "**CFC**"). For the year ended December 31, 2019, the total settlement amount exceeded RMB11.0 billion. In addition, we have further innovated and promoted relevant loan products in relation to logistics based on data collected from the CFC platform and big-data analytical technology, so that we could realize online approval and online lending in the future. We have also observed synergy between our Transportation Finance Department and other business departments and branches. In recent years, we have successfully built a brand recognition for our transportation finance business. As of March 31, 2020, the total credit granted to transportation enterprises in Shandong Province by the Transportation Finance Department amounted to RMB9.5 billion. As of March 31, 2020, the total deposit generated from transportation finance business amounted to RMB9.5 billion and achieved a CAGR of 53.9% between 2017 and 2019; and the total loans granted in relation to transportation finance business amounted to RMB2.6 billion and achieved a CAGR of 30.1% between 2017 and 2019.

- **We have established a solid foundation supporting our government finance business.** Leveraging on our comprehensive business network coverage in Shandong Province, we focus on developing business strength in relevant regions and have entered into strategic cooperation agreements with the PRC Government in different cities and districts in Shandong Province to enhance joint efforts in serving the local economy. As of the Latest Practicable Date, we have established cooperation with government bureaus at the city or district level in Shandong Province, which are in charge of land and natural resources, human and social securities, housing, taxation and public matters. While undertaking the deposit business of these institutions, we leveraged enhanced technology capability to connect our services with different fiscal function systems of the government, including the land resources auction system, supervisory system for the wage payment to migrant workers, pre-sale housing fund supervision system, financial non-tax revenue collection system and government procurement system. Capitalizing on these measures, we managed to, on the one hand, make substantial improvement in our relationship with relevant government authorities resulting in enhanced customer loyalty and profitability, while, on the other hand, achieve business channel expansion and revenue growth.

- **We develop tailor-made marine financial services to fit local markets.** We fully leverage our convenient location and extensive outlet network to enhance marine financial services that can better serve the featured marine economy in Shandong peninsula. In particular, we cooperate with a leading guarantee company in Shandong Province to developed tailor-made loan products for local marine fishery farmers where they could enjoy innovative credit enhancement. In addition, for regions with a strong marine aquaculture industry, we developed featured financial products where the relevant farmers could use sea area use rights as mortgage to apply for loans. These products allow us to quickly expand the relevant business while effectively mitigate the relevant risks.

- **We have developed a technology financial business.** In recognition of the importance of technology financial business, we established a technology sub-branch in 2011, which is committed to providing professional and efficient financial services for small and medium technology-based enterprises and has launched a new technology finance model that featured "government support, multi-party cooperation and cluster operation". This sub-branch is established in the national Weihai Torch Hi-Tech Science Park (威海火炬高技術產業開發區), where many small and medium-sized technology enterprises are located. As of March 31, 2020, customers of this sub-branch mostly comprised small and medium-sized technology enterprises, including strategic emerging industries of the PRC such as information technology, energy conservation and environmental protection, new materials and new energy.

- **Our financial leasing business has achieved rapid growth.** We have been actively exploring integrated operation and gradually building an integrated financial service platform, in line with relevant laws and regulations. In June 2016, Tongda Financial Leasing Co., our majority-owned subsidiary, commenced business operation, became the first commercial bank in Shandong Province to have established a financial leasing company as a promoter. Tongda Financial Leasing Co. has become one of the key anchors of our Broad Corporate Banking business strategy. Since its establishment in 2016, Tongda Financial Leasing Co. has maintained intensive and precise operations, focused on five target industries with strong potentials, i.e. transportation and logistics, infrastructure, energy conservation and environmental protection, cultural and tourism education, and medical and health care. In terms of target regions, Tongda Financial Leasing Co. focuses on six major regions in the PRC i.e. Beijing-Tianjin-Hebei, Bohai Rim, Yangtze River Delta, Greater Bay Area, Sichuan-Chongqing and Fujian-Jiangxi. We formed an innovation research group to explore platform-style marketing approach and standard business process, enabling the execution of a large quantity of transactions at the same time. Tongda Financial Leasing Co. has set up six separate business departments in Beijing, Shanghai, Jinan, Weihai and Chengdu with a wide, reasonable, scientific and orderly organizational layout. Each business department focuses on the development in their responsible regions. In addition, Tongda Financial Leasing Co. has created synergy with our other business lines, as a result of which, we have substantially enhanced our capability to offer comprehensive financial services to clients. During the Track Record Period, Tongda Financial Leasing Co.'s revenue and profit contribution grew rapidly. For the year ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, its revenue amounted to RMB251.8 million, RMB369.4 million, RMB522.7 million, RMB101.6 million and RMB158.9 million, respectively, accounting for 6.4%, 9.6%, 10.6%, 8.8% and 10.9% of our consolidated operating income, respectively; and its net profit amounted to RMB102.3 million, RMB151.1 million, RMB239.8 million, RMB57.6 million and RMB87.1 million, respectively, accounting for 6.4%, 14.9%, 15.7%, 15.3% and 22.2% of our consolidated net profit, respectively.

- **The rapid expansion of our "Broad Corporate Banking" business has benefited not only from the above mentioned featured products and services, but also from our efficient and complete business mechanism.** We have reformed our corporate banking business to consolidate the right to approve and manage corporate loan business, so that relevant business departments and branches can more precisely focus on high-end customers. In addition, we established headquarters-to-headquarters platforms to connect with the government, other banks and financial institutions, and enterprises with leading industry positions, through which, we managed to acquire a large number of customers by accessing resources of relevant counterparties in terms of government support, transportation and scale. We have also developed and maintained a list of quality customers. We make prudent judgment on the admission of high-end customers. We have implemented daily management system through departments and teams of different levels with appropriate authorizations, so that we could fully expand the high-end market and effectively maintain relationship with core customers. As a result, we have established an effective management mechanism and risk control mechanism.

We have business model strengths. We have adopted an "1+N" chain model to expand business with a focus on core customers, to promote innovation in business model and to continue developing online and platform businesses. In addition, based on development of supply chain financial channels, we have developed various platforms serving customer acquisition and marketing, including e-Baotong ("e保通") (the "**e-Baotong**") and Xinbaotong ("信保通") (the "**Xinbaotong**").

We also enjoy advantages from our strong technology capability. Leveraging our technological platform, we have managed to connect our services with different fiscal function systems of relevant government units. As a result, we have achieved breakthroughs in customer acquisition and collaboration between public and private resources. We have invested in developing a CRM system to enhance client management and have launched our CRM system in September 2012, which allows us to aggregate and integrate customer information and business data to assist us to fully explore the potential value of relevant customers.

We have also established competitiveness in terms of our marketing teams. In particular, we have continued to enhance the management of our marketing team in our corporate banking business by adopting a teamwork model in locating and serving customers. As a result, we could achieve improved efficiency and customer satisfaction.

We have the advantage of linkage with financial market business. Capitalizing on the gradually improved synergy and coordination between our corporate banking and financial market businesses, we have adopted measures to enhance the comprehensive competitiveness of our corporate banking business, including the expansion of product portfolio of investment banking business lines to meet clients' demands for investment and financing services, as well as the enhanced R&D on boutique products and services, including corporate wealth management, structured financing and consulting services. By developing these products, we are able to transform our business to asset-light model and effectively mitigate risks associated with business such as loans and proprietary investment.

Our "Broad Retail Banking" business focuses on the needs from base customers and has accumulated significant differentiation advantages through successful transformation of our business model and offering of featured products.

We believe retail banking is crucial to our future success. Through offering financial products and services to micro and small enterprises and individual customers, we closely follow and effectively capture the needs of base customers, strive to develop high net worth individual clients, and keep expanding the pool of mass customers through e-finance and cross-sector cooperation. Leveraging our deep understanding on economy and financial needs in relevant regions, we continuously expand product portfolio and innovate our business model of "Broad Retail Banking" business, and have achieved distinctive development. This also allows us to accumulate significant differentiation advantages while achieving rapid growth.

- **We have established unique core competitiveness in our offerings to micro and small enterprises.** In recent years, through firmly capturing opportunities brought up by the transformation from traditional to new economic drivers in Shandong Province, we have fully leveraged our advantages in terms of comprehensive business network coverage, strong customer resources for micro and small enterprises and the development model that emphasize "internet plus" and platform mode. In addition, through promoting the deep integration of technology into our micro and small enterprises business and capitalizing on our advantages as demonstrated by a short decision-making chain, strong innovation flexibility, refined product divisions, simple business process and targeted service, we have established unique core advantages in our micro and small enterprises business.

We commenced a micro-credit international cooperation project in 2013, under which we introduced micro-credit technology from international leading financial institutions and have established a micro-finance service institution in Weihai City. In 2014, we issued RMB3.0 billion micro and small enterprises financial bonds, the proceeds of which were used to provide financial products supporting development of qualified micro and small enterprises. We continuously improve product innovation and successively launched financial products that were well received by micro and small enterprises, including Zhilingtong ("智領通") (the "**Zhilingtong**"), Commercial Vehicle Loan ("商車貸") (the "**Commercial Vehicle Loan**"), Property e Loan ("房e貸") (the "**Property e Loan**"), Government E-finance ("政e融") (the "**Government E-finance**") and Online Business Loan ("網商貸") (the "**Online Business Loan**"). Our Zhilingtong series product was awarded the "Excellent Financial Product Serving Micro and Small Enterprises" and won the "Top 10 Financial Product Innovation Award" issued by Shandong Provincial Banking Association and The Chinese Banker successively in 2017 and 2018. In September 2017, we established the Inclusive Finance Department on the basis of the former Small Business Banking Department, and have successfully obtained the license of Small Enterprises Financial Service Center (小企業金融服務中心). We are eligible for reduction and exemption of VAT on the interest income from inclusive loans and we have satisfied the optimal standard for targeted RRR cuts in the field of inclusive loan as of the Latest Practicable Date. In addition, we invested in developing micro and small financing business that are encouraged by relevant policies. We have launched, through cooperation with different government departments and institutions, a broad range of loan products to micro and small enterprises, including venture guarantee loan, loan for transformation of scientific and technological achievement, loan for agriculture, loan for talents, loan for credit and insurance funds. Through offering these products, we managed to expand our customer base while effectively reducing and controlling risks, and have improved our fulfillment of social responsibility.

We pay particular attention to promoting innovation in our business model and have invested in improving platform-based marketing. For example, in April 2017, we commenced cooperation with commercial vehicle dealers to build the innovative Commercial Vehicle Loan business, where we use a platform-based approach to acquire clients and process loan applications in batches. Upon successful completion of the pilot program in relevant regions, we promoted this product in other cities and have implemented paperless online approval for this product in 2019. In addition, our Linyi branch has developed one-stop financial services as part of this product, covering vehicle dealers, insurance and banks, as a result of which, we have substantially improved operation efficiency. As of March 31, 2020, the aggregate amount of Commercial Vehicle Loan that we had granted exceeded RMB8,232.8 million covering approximately 17,000 customers. As of March 31, 2020, the outstanding amount of our Commercial Vehicle Loan was RMB5,323.0 million without any non-performing loans.

We successively launched featured products including Property e Loan, Government E-finance and Online Business Loan. Property e Loan is the first online product independently developed and designed by us, which utilizes big-data analytical technology and platform to allow our customer to have online access to services used to be provided under traditional personal mortgage loan business. As a result, customers could benefit from five major features, including free online property evaluation, fast application reception, quick approval, flexible deadline and repayment method, and rolling use of proceeds. As of March 31, 2020, since we launched Property e Loan in September 2019, the aggregate amount of granted loans amounted to more than RMB648.5 million. Utilizing the government's big data credit reporting platform, we launched Government E-finance, a product for micro and small enterprises, which allows us to rate relevant enterprises by building an enterprise social credit rating model based on integrated judicial, tax, industrial and commercial, social security data in relation to relevant enterprises, according to which, we may provide qualified enterprises with short-term working capital loans. Applicants for Government E-finance can enjoy various benefits, including comparatively high credit amount and flexible repayment methods. Online Business Loan was launched in July, 2019 through the collaboration with a well-known online platform. This is an unsecured working capital loan designed for qualified micro and small enterprises and individual business owners. Since we launched Online Business Loan, the aggregate amount of granted loans exceeded RMB573.2 million as of March 31, 2020.

- **We have strong competitiveness in retail banking products and services for individual clients.** Upholding the principle of "focusing on customer and following market trend", we focus on developing products and services such as personal savings, consumer loans, wealth management, credit card installment, and agency services. Leveraging our existing geographical and network advantages, we have been able to establish significant differentiated advantages by launching featured products and services, reforming retail banking business and enhancing fintech capabilities. Based in Weihai City, our retail business has been well developed in various cities in Shandong Province and Tianjin Municipality. Capitalizing on our extensive outlets network, we have an effective courage of a broad market, through which, we have managed to accumulate a strong customer base and customer stickiness. As of March 31, 2020, we had 2.9 million retail banking customers, among which 2.1 million are from Weihai City, accounting for over 70% of the total permanent residents in this city. As of December 31, 2017, 2018 and 2019, our total personal loans and advances amounted to RMB11,403.1 million, RMB15,181.0 million and RMB22,291.4 million, respectively, representing a CAGR of 39.8%; and our total personal deposits amounted to RMB38,872.4 million, RMB44,683.6 million and RMB57,699.9 million, representing a CAGR of 21.8%. As of March 31, 2020, our total personal loans and advances and total personal deposits amounted to RMB23,964.6 million and RMB62,512.1 million, respectively.

  We actively participated in different livelihood-related projects and agency services in Weihai City. In particular, in response to Weihai City's overall plan of building a "Smart City", we launched the Weihai Citizen Card ("威海市市民卡") (the

"**Weihai Citizen Card**") program which provides cardholders with access to residents' health services, public utilities payment, access to government services, access to wealth management products, etc. As of March 31, 2020, we have issued in total 1.3 million Citizen Cards. As of the Latest Practicable Date, our agency business covers more than ten payment services in relation to the daily life of citizens such as water, electricity and heating and we have established cooperation relationship with 13 companies to operate agency business. In addition, capitalizing on advanced fintech, we have developed various well-received retail banking loan products. Wang Yi Loan is a new consumer loan product, which allows customers to use proceeds within an approved credit limit on a rolling basis and complete drawdown and repayment online, providing great convenience to customers. We are the second city commercial bank approved to issue credit cards in Shandong Province. As of March 31, 2020, we had issued over 60,000 credit cards in aggregate and have launched a variety of credit card installment products, including innovative installment products designed for sales of automobile and parking space. Our credit card users are mainly customers with good credit rating such as public civil servants, teachers and business people. As of the Latest Practicable Date, the NPL ratio of our credit card loans was only 0.50%.

Since we commenced our wealth management business in 2011, up to March 31, 2020, the aggregated returns to clients from this business amounted to over RMB3.6 billion. As of March 31, 2020, our total balance of wealth management products was RMB20.2 billion, where our product portfolio comprised both close-end and open-end products with short, medium and long terms investment periods. We issued our first net value wealth management product in relation to cash management in 2019, demonstrating our breakthrough in net value transformation of wealth management products.

The rapid growth of our "Broad Retail Banking" business has benefited from our business mechanism that is continuously evolving. We initiated reform of our retail banking business in 2018. We have consolidated the right to approve and manage corporate banking business, so that all of our outlets can focus on developing retail banking business. We invested in developing a specialized retail banking marketing team and had 392 retail banking customer managers as of March 31, 2020. The reform brought us remarkable benefits. Our personal deposits in Weihai City as of December 31, 2018 increased by RMB11,641.4 million to RMB44,905.5 million as of March 31, 2020. We have also established advantages in terms of customer acquisitions. Leveraging our competitiveness in public-private coordination and cross-selling capability, we implemented list-based management for key customers such as schools, residential communities and business regions. Starting from the community payment and other services, we carried out marketing of personal mobile financial services, and realized cross-selling and combination marketing on the basis of high-quality products such as wealth management products. We also carried out platform-based marketing for retail banking business. We have worked to realize efficient acquisition of customers in batches and have achieved resources sharing by guiding relevant institutions to build cooperation platforms with leading local enterprises, hospitals, schools and property management companies. Accordingly, we aim to attract nearby designated merchants in the "medical, food, housing and transportation" sectors to use such relevant platforms. We have also invested in developing technology advantages, where we actively established cross-sector innovative cooperation with Internet platforms, and Fintech companies, based on which, we have launched a broad range of financial products and services, including online loans, payments and settlement. In particular, capitalizing on technologies such as big data analytic, we launched online loan products such as Property e-loan and Online Business Loan. In addition, we built a scenario-based comprehensive business model to gradually transform our operation from physical processing to online processing to create new customer experience, thereby allowing us to acquire customers on an online, scenario and batch basis. Through intelligent and refined big data technology, we have substantially improved our ability to operate customers in depth and to control risks.

We have seized the market momentum to develop our financial market business into a strong source of profit and significantly improve our asset allocation capabilities.

In response to the regulatory reform that gradually removed the competition barriers for the asset management business in the PRC since 2012, commercial banks have begun to actively carry out different new businesses, including asset management, financial institutions, and investment banking business. We made proactive response to the change in the competition landscape and have established a financial market department by integrating the banking, asset management, investment, investment banking and other business sectors, creating a business expansion and internal control mechanism with clear responsibilities among front, middle and back offices and a check-and-balance structure.

In recent years, following the trend of economy, regulation and market, leveraging our advantages of extensive outlet network and long-term penetration in local markets, and adhering to the overall principle of legal compliance and stable operations, we invested in improving treasury business, exploring and innovating interbank business and optimizing asset-liability structure. As a result, we managed to establish a sound portfolio of investment products, and have achieved continuous improvement in investment return. For the year ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, revenue from our financial market business amounted to RMB1,234.8 million, RMB870.2 million, RMB1,129.2 million, RMB269.2 million and RMB294.0 million, respectively, accounting over 20% of our total revenue consecutively; the profit before tax of the financial markets business amounted to RMB774.7 million, RMB449.8 million, RMB660.6 million, RMB160.5 million and RMB156.8 million, respectively, contributing over 30% to the profit before tax. Financial market business has become an important source of profit.

- **We have comprehensive licenses and qualifications.** We took efforts to continuously apply for and obtain different business licenses in relation to interbank business, and promote development of various business lines and innovation of products. Capitalizing on our broad range of licenses and qualifications, including those for underwriting and derivative businesses, we are able to provide comprehensive financial services for clients. As of March 31, 2020, we have the qualifications to underwrite financial bonds issued by the Agricultural Development Bank of China and different local governments and trade ordinary derivative products. We have also obtained membership of China Interbank FX Market Derivatives and Foreign Currency Market Derivatives. In addition, we have business licenses for issuing interbank certificates of deposits of Shanghai Clearing House, net settlement of bond transactions, central clearing of standard bond forwards, fundamental membership of self-regulatory pricing mechanism for market interest rates, clearing membership of China Central Depository & Clearing, clearing membership of Shanghai Clearing House, membership of RMB interest rate swaps and RMB interest rate options of China Foreign Exchange Trade System. These licenses and qualifications allow us to adopt a variety of means to optimize structure of assets and liabilities.

- **We have established extensive cooperation with industry peers.** Through continuous investment in managing and maintaining interbank clients, we have continuously expanded the product coverage and participation of relevant business, while achieving sustainable increase in the number of interbank business clients. As of March 31, 2020, we had over 540 interbank customers, constituting a strong customer base for interbank transactions, bond issuance and liquidity management. In managing our interbank business assets, we emphasize standardization, closely follow market trends, maintain operational flexibility and increase the proportion of standardized assets. In managing liabilities, we focus on making appropriate adjustment to duration and reduce our dependence therein. During the Track Record Period, our interbank funding business has achieved solid growth. We operate our interbank funding business in compliance with the regulatory requirements. We continue improving our services to a wide range of utility enterprises, listed companies and growth enterprises. Through coordination of the headquarters and branches, we have integrated the development of financial market businesses with traditional businesses, and established effective control on the entire process through implementing customer-list based marketing.

- **Our debt securities investment business has achieved steady growth.** Through conducting transactions such as securities lending, we have successfully liquidized remnant securities assets. We obtained the qualification for derivatives business in 2019, thereby further expanding profit sources and risk hedging options, which laid a solid foundation for developing debt securities investment business under different market conditions. In recognition of our strong investment business capability, we obtained various honors or awards, including Interbank RMB Market Top 300 ("銀行間本幣市場交易300強") in 2018 and 2019, Most Potential Award in Underwriting Financial Bonds ("金融債券承銷最具潛力獎") granted by the Agricultural Development Bank of China in 2018, and Award to Underwriter from Banking Industry for Local Bonds with Best Improvement ("地方債銀行類承銷商最佳進步機

構") in 2019. As of December 31, 2017, 2018, 2019 and March 31, 2020, the total balance of our debt securities investment (excluding accrued interest) was RMB48,477.3 million, RMB51,048.7 million, RMB53,474.2 million, RMB60,842.3 million.

- **We have a well-developed and stable wealth management business**. We have commenced our wealth management business since 2011 and established brand recognition in relation to well-developed and featured products and accumulated a stable customer base. Leveraging our extensive business network coverage, we actively explore customers' demands, based on which, we invested in designing and launching tailor-made wealth management products and services that they could conveniently access. We have implemented a diversified, cross-market investment strategy with a stable investment return and controllable risks. Since the commencement of our wealth management business and up to March 31, 2020, the aggregate investment return for clients from our wealth management business amounted to over RMB3.6 billion, resulting in our well-recognized market reputation. We intend to further improve the comprehensive strength of our wealth management business by continuing to implement net value reform of wealth management business and keep expanding our product portfolio with innovative net-value products.

We have adhered to digitalization-driven technology enablement for continuous progress and have made achievements in the building of online smart bank.

We recognize the importance of technology in driving business development. With digitalization as the key driver, we are able to cultivate our core competitiveness enabled by strengthened technology. We have set up the Internet Finance Department for online finance business to continue building a digitalized online smart banking system that delivers outstanding performance.

We have comprehensive technology systems. Focusing on various key aspects of our business operations, including customer services, products, audit, channel services and data analysis, we have gradually established 104 system platforms, comprehensively covering cards, intermediate business, loan, online loan, wealth management, instruments, customer relationship management, online banking, mobile banking, database, risk market and customer ratings. In addition, we have established a data center to facilitate digitalized management of our business in a stable, reliable and safe way. We have invested in establishing a unified route for system interactions by building a corporate-level service main line, through which, we can effectively improve flexibility and efficiency of intrabank systems integration as well as technology development. In order to centralize data exchange, we have established a data-exchange system based on data vault, through which we can collect, file and process bank-wide data in a consolidated way, providing data support for statistics, data analysis and decision-making work in different systems. We have integrated over-the-counter business channels and have consolidated relevant key procedures that closely correlate with each other, including automatic fingerprint verification, automatic connected verification, automatic seal verification and automatic code verification, providing customers and our staff with convenient operations. We have established full connection among different work streams within our Bank and completed a comprehensive upgrade of the traditional office system into platforms that can effectively support internal management. Through such upgrade, we have managed to achieve enhanced efficiency for internal coordination and communication, while providing the technical framework for a paperless office management.

Capitalizing on our continuous research and development efforts and the successful launch of different online products, such as Online Business Loan and Property e-loan, we have made consecutive breakthroughs in our online business. In recent years, we have built a mobile finance platform based on mobile internet technology, creating a safe and stable mobilized work environment and enabling off-site functions including mobile office, mobile card issuance and mobile contracting. In order to build our omni-channel operating platform, we have invested in the integration of online and offline channels and the establishment of new business procedures including pre-filling forms for customer businesses, internal pre-review and over-the-counter delivery of products through smart devices. We have also consistently optimized the functions of the smart devices, expanded the deployment of such devices, pushed for reallocation of over-the-counter businesses, and improved the service effectiveness of the outlets. In addition, we proactively promote the application of big-data analytic technology during our decision-making process and risk management. Our latest credit risk monitoring system was established based on Internet and big-data technology, which allows us to effectively improve timeliness and accuracy of risk-related information collection, monitoring, and early warning. We have realized online approval of various loan products, including Commercial Vehicle Loans, residential mortgage loans. We have also achieved systematic display of intra-bank flow of credit capital and source of repayment. The identification and highlight of risk related data within our Bank, including those generated by industrial and commercial authorities, judicial authorities, and credit reports from PBoC. We have also introduced other useful tools into our system, such as mortgage-related tools that could show evaluation results on average price of real estates owned by corporates. We have established a corporate service support platform to connect our services with platforms of different government authorities and enterprises to promote the cooperation between us and such authorities and enterprises.

In managing our electronic banking channels, we have established a broad range of channels, including mobile banking, online banking, WeChat banking, smart banking, self-service equipment, direct selling banking and community finance. As of March 31, 2020, we had 1.1 million mobile banking customers. For the year ended December 31, 2019 and for the three months ended March 31, 2020, the total transaction volume exceeded RMB120.0 billion and RMB18.8 billion, respectively. As of March 31, 2020, our substitution rate for wealth management product transactions through electronic banking channels was 99.99%, and that for over-counter fund transactions was 100%. Our e-banking channels possess the following competitive advantages: (i) it has an extensive coverage allowing customers to conveniently access our services through mobile phone APPs, internet websites, WeChat official accounts and self-service equipment area in our outlets; (ii) it serves a broad range of scenario covering substantially all aspects of customers' financial life as it allows customers to accomplish basic tasks such as fund transfer and wealth management, as well as enjoy a variety of services in relation to daily life, such as hotel booking and takeaway, fresh food, movie ticket and air ticket purchases; (iii) it offers good customer experience. We do not charge customers for using our mobile banking and personal online banking services. In addition, we adopt biometric technologies such as face recognition and fingerprint log-in in our mobile-banking services and have optimized user interfaces in line with the "customer-centered" design concept, so that customers can enjoy convenient and easy use of our services; (iv) we stress safety and reliability of our services. Leveraging password-based double authentication and strong protection mechanism, as well utilization of a mobile security token, we have effectively enhanced protection on our customers' transaction information; and (v) we have established strong brand reputation. Our mobile banking business has been awarded China Financial Innovation Award-Top Ten E-banking Innovation Award for 2019 (2019中國金融創新獎–十佳手機銀行創新獎) by The Chinese Banker and the "Annual User Experience Case Award (用戶體驗年度案例獎)" by China Financial Publishing House.

We have made significant progress in the business innovation and cross-sector cooperation. For instance, we have developed an intelligent logistics settlement platform system designed to provide corporate customers and platform users with integrated financial solutions such as unified account management, fund pooling and platform-based intelligent settlement. We have established in-depth business cooperation with a number of well-known Internet enterprises, through which, we can leverage the advantages of Internet enterprises in customer base, big data and risk management technologies, to provide qualified micro and small enterprises, individual business owners and consumers with credit products they need for their daily operation and/or consumption. We have also established business cooperation with leading payment solution providers to jointly develop fast payment services and merchant code scanning services. We plan to further enhance in-depth cooperation in fields such as merchant services and marketing development in the future.

We have established a centralized, vertical, effective and comprehensive risk management system and have achieved stable asset quality.

With the vision to establish a risk management system that can meet requirements of a leading international commercial bank, we have strived to achieve effective risk management according to principles of comprehensive risk management, vertical management, professionalized management, correlation between authority, responsibilities and rights, as well as linkage and checks and balances. Through years of efforts, we have established a capital management system that is suitable for our overall development strategy and risk profile. We have developed a capital control mechanism focusing on capital adequacy ratio management, and sound internal capital adequacy assessment procedures, through which, we can fully deploy the risk orientation and mitigation effect of capital management. We have established a comprehensive risk management system covering all employees and operation processes, the entire Bank and all types of risks. We have also developed a centralized and vertical risk management system where front, middle and back offices can effectively coordinate in an integrated way and based on a check-and-balance. We have also established an internal control and operation mechanism that effectively balances risks and returns. Such mechanism has played an important role in promoting the sustained and steady development of our different businesses.

We have established a sound risk management organizational structure comprising the Board of Directors, the Board of Supervisors, senior management and various risk management committees and departments. The Board of Directors and its special committees, namely, the Risk Management Committee, the Related Party Transactions Control Committee and the Audit Committee, are responsible for making decisions on major risks at the bank-wide level. Our senior management has organized competent departments for various risks to jointly promote the specific risk management work. The Board of Supervisors supervises the performance of the Board of Directors and the senior management, and inspects and supervises the risk management of the Bank. This sound risk management structure ensures the effective risk management with a strong check-and-balance.

We have established comprehensive risk management policies, procedures and risk limit management systems. We continuously optimize the top-down design to consolidate the risk management foundation, and have established a sound risk management policy covering credit risk, market risk, operational risk, liquidity risk, strategic risk, information technology risk, reputational risk and country risk. We have established a capital control mechanism focusing on capital adequacy ratio management, a complete internal capital adequacy assessment mechanism, and a risk management mechanism that covers the entire work stream, including risk identification, measurement, assessment, monitoring, and mitigation and control. We use a broad range of tools in relation to risk limits, stress testing and risk identification and assessment to steadily improve our risk management and control capability in line with our overall risk management framework. We formulate and update annually our risk preference strategy and risk indicators limit covering all business lines and risk types, by taking into account factors such as external environment, regulatory dynamics and our business development.

We have established a comprehensive risk management IT system. We continuously invest in improving our technology capability in risk management work. For example, we have developed technology-based systems such as the credit rating system for retail business (零售評級系統), the credit rating system for non-retail business (非零售評級系統) and collateral and pledges management system. Through gradually exploring and improving the application of risk quantification tools in relation to fields such as business access, risk alert and differentiated risk management strategies, we have managed to improve our capability of conducting detail-oriented risk management work. We have established a consolidated database for risk-related data to realize the unified management and utilization of relevant information, and provide strong support in data for the development of different risk management systems. We also have specific systems to address internal control, compliance and operational risks, liquidity risks, interest rate risk in the banking book risk measurement. By fully utilizing these systems and tools in risk identification, measurement and monitoring, we can effectively improve our overall risk management capability.

We have continued to strengthen credit risk management. We have established and continuously improved our comprehensive system of credit risk management policies and regulations, which comprise a broad range of basic policies, systems and methods and are prepared with clear categorization, in a scientific way and with comprehensive coverage. Our credit risk policy system comprises policies we developed in line with our development strategy and risk appetite, including policies in respect of credit, industries, regions, customers and products. With reference to the national and industrial financial policies, we have developed credit policy guidelines to clarify the development direction of our credit business and achieve accurate launch of credit products. We have established a credit management structure with clear and correct division among front, middle and back offices, and implemented separate risk control management of credit review and approval. We have established a tier-structured credit authorization and approval mechanism and a collective review mechanism under the Credit Review Committee to continuously strengthen operational risk management. We have built a hierarchical marketing and management mechanism to enhance our ability to maintain customers and control risks. We have developed a post-loan management strategy under which risk prevention is the goal, capital supervision serves as the mean, and the implementation of relevant work focuses on sales revenue return rate assessment, capital and interest collection management and five-level loan quality classification management. In addition, in order to enhance the process management on post-disbursement risks, we have adopted comprehensive means, including supervision, guidance, inspection, assessment and comparison. We continuously improve technology-driven risk control and applications to enhance our risk management capabilities covering the entire work stream. In strict accordance with the principle of "Specialization, Full-time and Professional Personnel ("專人、專職、專業"), we fully push forward the collection of non-performing loans and the rapid elimination of existing risks.

We have forged a distinctive risk management and compliance culture. We operate our business in strict compliance with relevant laws and regulations. We uphold the risk management requirements emphasizing on "Rules and Regulations, Supervision, Inspection, Assessment and Rectification ("有制度、有監督、有檢查、有考核、有整改"). We have established an internal control organizational structure with rational division of functions, clearly defined responsibilities and clear reporting relationships, which is equipped with adequate and appropriate resources for the internal control management, assigning the rights and responsibilities appropriately, and ensuring that each of the internal control responsibilities was fulfilled effectively. Our internal control adapts to management mode, business scale, product complexity and risk profile. Capitalizing on these factors, we have established a distinctive compliance culture, and a strong recognition among employees regarding the importance of compliance.

We have maintained sound asset quality during the Track Record Period. As of December 31, 2017, 2018, 2019 and March 31, 2020, our NPL ratio was 1.47%, 1.82%, 1.80% and 1.80%, respectively, which is lower than the average NPL ratio of all PRC banks as of relevant dates, being 1.74%, 1.83%, 1.86% and 1.91%, respectively.

OUR DEVELOPMENT STRATEGIES

We plan to develop technology-driven "Bi-Focus Retail Banking" ("兩端型零售銀行") business model and focus on enhancing differentiated strengths, retail banking business, intensive management and comprehensive coverage. We also plan to improve the utilization of capital, our brand recognition and the management of business on a group-level perspective. It is our long term strategic goal to transform ourselves into a bank that continuously creates value for employees, customers, shareholders and society. We plan to implement the following development strategies:

Continuous investment in business development to "Bi-Focus Retail Banking" ("兩端型零售銀行") business model, consolidating and enhancing differentiated advantages.

In managing our corporate banking business, we intend to continue focusing on high-end customers, adhere to the pursuit of professionalism and intensiveness, and take full advantage of our location, our shareholder base and the government policies to further enhance the overall competitiveness, implement "list system" management, strengthen innovation, and establish a business model featuring high-end development. In the future, we will assess business under different consumption scenario, treat artificial intelligence as the core for business development and adopt advanced technologies, like blockchain, as the driving forces to build the market recognition of our brand as a transaction bank. For instance, we started to initiate research project on applying artificial intelligence with our optical character recognition software (the "**OCR**") since April 2020. OCR identifies and extracts text from documents and images (such as invoice, financial reports, documents that are used in loan application), allowing them to be understood and processed by a computer, like an artificial intelligence. We also started to explore the possibility of using blockchain technology in our system such as utilizing its method of verifying and tracking transaction, allows multiple parties to have simultaneous access to a constantly updated digital ledger that cannot be altered. We also intend to actively participate in innovation of the financial model relating to free trade zones. In accordance with the requirements of "professional, vertical, and efficient operation", we will further improve the departmental structure for the transportation financing business, and set up regional transportation financing business branches in a timely manner to achieve a breakthrough in profitability.

In relation to the micro and small financial business, we will continue to closely focus on the mass market of micro and small enterprises, continue to innovate featured products, improve data application capabilities, accelerate the pace of digital transformation, create a digitally driven online platform, and further transform the marketing model to batch-based and platform-based model to improve acquisition of customers on the platform and mass marketing capabilities and achieve rapid and healthy development. At the same time, we will take full advantage of policy-based inclusive financial business, to continuously expand the mass market of micro and small customer base in Shandong Province and Tianjin Municipality.

We will further implement the strategic reform of our personal retail banking business. In particular, we intend to guide branches and sub-branches to keep focusing on retail banking business to fully realize potential arising from the reform and drive rapid expansion of the business. We intend to steadily enhance our business operation scale for savings, wealth management, consumer loans, and at the same time improve the wealth management system, accelerate the innovation of consumer products in installment, and continue to improve customer satisfaction and loyalty. We plan to improve utilization of fintech to make our products and services more accessible through mobile technologies, to be more adaptable in platforms, to be applied to more consumption scenarios and to become more intelligent and digitalized. We intend to provide more financial services with improved quality, efficiency and value and continuously improve customer contribution.

With regard to the financial market business, we will maintain steady growth in accordance with laws and regulations. We plan to increase customer loyalty and improve profitability by acquiring new business licenses, intensifying R&D efforts in asset management products, focusing on subdivided business segments and providing comprehensive products and services. In respect of asset allocation, we will focus on market-oriented, standard products with high rating. In addition, we will keep focusing on risk management, ensure proper compliance and manage leverage. We also intend to keep investing in the development of a professional R&D team for this business.

We will continue to promote comprehensive operations. In particular, we intend to strengthen the coordination between our Bank and Tongda Financial Leasing Co., and continue enhancing its positive influence and leading effect on our main business segments. We plan to proactively apply for license of other business lines, so that we can explore to better offer comprehensive financial services.

We adhere to the three core business strategies: (i) we plan to follow platform strategy to effectively expand our business operations, where we may leverage advantages in select points to promote business expansion at a larger scale, so that we can undertake marketing and acquire clients in massive scale with improved efficiency; (ii) we plan to pursue timely services to clients, particularly, to respond in a timely manner to changes in markets, regulations and industries; and (iii) we intend to continue to innovate in products, platform, business model and mechanism.

Promoting digitalization of business operations and services and continuously enhance application of advanced Fintech.

By further promoting the concepts of "technology leading business" ("科技引領業務") and "technology serving business" ("科技服務業務"), and further actively explore the in-depth integration of our business and advanced technologies, including artificial intelligence, blockchain and big data. We plan to enhance cooperation with external parties to achieve digital transformation, and improve application of big data in risk control, customer acquisition and marketing. In addition, we intend to improve intelligence of our services. In particular, we plan to promote the digital reconstruction of front, middle, and back office by leveraging application of fintech, so that we can make comprehensive improvement in customers' experience. We will explore and promote a network-based, intelligent and featured operation model, where we utilize various advanced technologies, including biometrics, customer portraits, smart outlets, intelligent customer service and intelligent risk control services. In addition, we plan to further integrate our service channels and online resources, and create cross-border cooperative innovation platforms (through cooperation with cross-border Fintech companies and utilizing its advanced risk control technology and internet data, to establish our own anti-fraud and big data risk control models, which could help to drive our digital transformation), mobile financial marketing platforms, direct banking service platforms, open banking ecosystem platforms (open banking ecosystem platform connects customers with ecosystem of financial institutions, third-party developers, Fintech companies etc., in which data, processes, business needs, financial services technology are all made available in the platform which puts customers in control of their financial data) and smart banking network platforms. Furthermore, we plan to enhance coordination efficiency between online and offline businesses to form a new retail business model for financial products and service. Through integrated, scenario-based, intelligent and personalized services, we aim to provide customers with a better financial life experience.

Implement "precise" internal management, and continuously improve the effectiveness of compliance and risk management.

We will further refine our management and compliance capabilities to improve regulatory compliance coverage and implementation, streamline, standardize and simplify relevant works, so that we could improve the intelligence level of our entire business process and further standardize our business model.

We will further apply advanced technologies to risk management. Focusing on model, data and system, we plan to enhance existing risk management based on specific and standard risk management procedures in our system. By embedding these concepts into relevant models, we plan to rely on models to improve efficiency of business operation and marketing, credit review and approval and risk management. We will continue to apply and promote online approval to improve the timeliness and accuracy of risk identification. In addition, we plan to promote the application, improvement and optimization of credit rating and scoring system tools. We will also promote the deep application of credit results in credit approval, loan pricing and risk-limit management to realize comprehensive improvement in the quality and efficiency of risk management.

We plan to build a precise and agile risk warning system. We will continue to improve the risk management structure, make reasonable allocation of resources prior to, during and subsequent to relevant events, and enhance efficiency of early warning by data sharing. We plan to utilize big data analysis and mining technologies to integrate the internal and external data, innovate credit risk monitoring systems and improve timely alteration on key risks and accumulation of minor risks, so that we can establish an "agile and proactive" early warning management system. We also plan to train and establish a team of risk management professionals with knowledge and skills of risk modeling.

We will continue to strengthen our capital management, in particular, by pursuing an effective combination of capital control and risk management, and improving the ability to resist risks. We will direct each business line to operate in a capital-intensive model by making reasonable allocation of capital and resources as well as striking a balance between utilization of capital and investment return. We will further explore and study different capital replenishment tools and channels for study and demonstration, and establish and improve the dynamic capital replenishment mechanism, so that we can ensure that the capital adequacy ratio continues to meet regulatory requirements and our business development needs.

To build a "people-oriented" corporate culture and adhere to the route of "building a stronger bank with talents (人才強行)".

We will further deepen the establishment of corporate culture. We will actively advocate the "people-oriented" concept, and create a cultural environment where employees respect, care for, understand, love, and cultivate each other. In addition, we plan to promote the "happy culture" ("快樂文化") as the core and essence of corporate culture across our Bank, and further develop our vision of becoming a "a bank with a strong desire to learn and a happy work environment" ("學習型快樂銀行"). In particular, we will create a corporate culture that values responsibility, learning and gratitude, which can be demonstrated in different special holidays, such as "learning festival", "thanksgiving" and "responsibility festival" and featured events such as celebrity lectures, speech contests, interest groups and social welfare activities. Through these measures, we intend to create the cohesion for our sustainable development.

We will resolutely implement the strategy of "building a stronger bank with talents" ("人才強行"), according to which, we will continue to optimize the structure of the talent team, improve the quality of our employees and recruit talents on a broad basis. In particular, we will attract passionate, energetic and knowledgeable young talent to join us. We will establish a more reasonable and market-oriented promotion system and assessment model, and continue to improve the talent training, clear talent training path and unblock talent growth channels. We will further optimize the professional structure and age structure of the talent team through a combination of external recruitment and internal training, cultivate talents with strong professional skills and deep knowledge in select regions with capabilities to innovate. In this way, we will focus on developing talents with comprehensive skills who understand business operations, hold strong technology capability and are good at marketing.

OUR PRINCIPAL BUSINESS LINES

Our principal lines of business comprise corporate banking (including financial leasing services provided through our subsidiary, Tongda Financial Leasing Co.), retail banking and financial markets. For details of our financial leasing business, please see the subsection headed "— Financial Leasing Company". The following table sets forth our operating income by segments for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019 (unaudited)		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)									
Corporate banking[(1)]	2,135.8	54.6%	2,235.4	58.3%	2,931.7	59.3%	646.1	55.8%	824.2	56.3%
Retail banking	522.0	13.4%	714.4	18.6%	897.2	18.1%	245.8	21.2%	347.2	23.7%
Financial markets	1,234.8	31.6%	870.2	22.7%	1,129.2	22.8%	269.2	23.2%	294.0	20.1%
Others[(2)]	15.4	0.4%	13.6	0.4%	(10.9)	(0.2%)	(2.0)	(0.2)%	(0.3)	(0.1)%
Total[(3)]	**3,908.0**	**100.0%**	**3,833.6**	**100.0%**	**4,947.2**	**100.0%**	**1,159.1**	**100.0%**	**1,465.1**	**100.0%**

Notes:

(1) Our operating income from corporate banking business also included revenue derived from Tongda Financial Leasing Co.

(2) Consisted primarily of income that is not directly attributable to any specific business segment.

(3) Our operating income from these segments represents the net interest income derived solely from the respective lines of business, which is further added/deducted by net fee and commission income/(expense), net gains/(losses) on trading activities, net gains/(losses) arising from investment securities or other operating income/(expense), as applicable, attributable to the respective lines of business.

Corporate Banking

Overview

We offer our corporate banking customers with a comprehensive range of financial products and services, including corporate loans and advances, discounted bill, corporate deposits, transactional banking services, investment banking services and other fee and commission-based products and services such as corporate wealth management services and guarantee services. During the Track Record Period, our brand reputation obtained recognition from financial industry, peers, consumer advocacy and other community groups.

As of December 31, 2017, 2018, 2019 and March 31, 2020, the deposits from our corporate banking customer deposits amounted to RMB81,019.4 million, RMB70,997.2 million, RMB84,439.9 million, RMB92,278.7 million, respectively. The total corporate loans and advances to our corporate banking customers have also grown significantly, from RMB51,197.7 million as of December 31, 2017 to RMB70,790.8 million as of March 31, 2020.

We take a proactive approach participating in major renovation/infrastructure projects promoted by local governments or with strategic value to the local economy in order to tap into different regional markets across Shandong Province and at the same time enhance our long-term relationship with relevant local governments. During the Track Record Period, we offered our services to diversified corporate banking customers involved in a broad range of projects, such as infrastructure construction projects, industrial restructuring and upgrading projects, agriculture modernization projects, reform and innovation of rural financial service projects, etc. In addition, to provide prompt and efficient service for transportation infrastructure, transportation and transportation equipment manufacturing related industries (which are strong economy sectors in Shandong province), we have set up a Transportation Finance Department ("交通金融部") (the "**Transportation Finance Department**") in October 2014. This department is responsible for marketing, customer relationship maintenance and product research and development for our corporate banking customers who operate in the transportation, infrastructure and equipment manufacturing related industries. In addition, we have also established an Inclusive Finance Department ("普惠金融部") (the "**Inclusive Finance Department**") in 2017, focusing on developing and offering financial products and services accessible and affordable to underserved micro and small enterprises customers in Shandong Province and Tianjin Municipality. For more details of our Inclusive Finance Department and products and services we offer to our corporate banking customer, please see "— Corporate Banking — Corporate Loans — Loans to Micro and Small Enterprises" in this section.

In addition, as of March 31, 2020 we have entered into a total of eight strategic agreements, involving seven cities, which allows us to forge a strong and long-term relationship with our corporate banking customers. In particular, among these agreements, there were strategic cooperation agreements with a number of large enterprises and state-owned enterprises. For more details, please see "— Corporate Banking — Corporate Banking Customer Base" in this section. Furthermore, we also established a financial leasing company, Tongda Financial Leasing Co. in June 2016, focusing in providing financial leasing solutions to our customers. Our financial leasing solutions primarily take the form of direct lease and sale-and-leaseback and in certain cases, we also provide diversified financing leasing solutions to accommodate different business needs of our customers. For details of our financial leasing business scope, please see the sub-section headed "— Financial Leasing Company".

For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, operating income from our corporate banking business amounted to RMB2,135.8 million, RMB2,235.4 million, RMB2,931.7 million, RMB646.1 million and RMB824.2 million, respectively, accounting for 54.6%, 58.3%, 59.3%, 55.8% and 56.3%, respectively, of our total operating income for the same periods. As of March 31, 2020, we had a total of 42,189 corporate banking customers. The rapid growth of our corporate banking business is underpinned by our strong customer base. Catering to the various financial needs of corporate banking customers, as well as a broad range of products and services with features targeting selected groups of corporate banking customers, we are able to expand our corporate banking customer base by offering comprehensive financial services with customized options.

Corporate Loans

We provide a variety of lending options and services for our corporate banking customers. Our corporate loans products are typically repayable in one to 10 years. These corporate loans, which also can be secured or unsecured, are available with fixed interest rate and variable interest rate.

Corporate loans were the largest component of our loan portfolio during the Track Record Period. As of December 31, 2017, 2018, 2019 and March 31, 2020, our corporate loans and advances amounted to RMB51,197.7 million, RMB53,410.6 million, RMB63,499.1 million and RMB70,790.8 million, respectively, accounting for 77.0%, 71.0%, 68.7% and 68.3%, respectively, of our total loans to customers as of the same dates.

Distribution of Corporate Loans by Product Type

We mainly provide our corporate banking customers with working capital loans and fixed asset loans. We provide financial lease services through our subsidiary, Tongda Financial Leasing Co. The following table sets forth our corporate loans by product type as of the dates indicated.

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)							
Working capital loans	44,618.2	87.1%	43,459.6	81.3%	46,485.9	73.2%	50,049.2	70.7%
Fixed asset loans	5,617.5	11.0%	9,445.2	17.7%	15,215.4	24.0%	18,752.4	26.5%
Other loans[1]	962.0	1.9%	505.8	1.0%	1,797.8	2.8%	1,989.2	2.8%
Total corporate loans and advances	**51,197.7**	**100.0%**	**53,410.6**	**100.0%**	**63,499.1**	**100.0%**	**70,790.8**	**100.0%**

Note:

(1) Consisted primarily of advances and trade financing.

For a detailed explanation on the fluctuations of each product's share in our total corporate loans, please see "Assets and Liabilities — Assets — Loans and Advances to Customers — Distribution of Loans by Business Line — Corporate Loans — Distribution of Corporate Loans by Product Type".

Working Capital Loans

We provide working capital loans to our corporate banking customers to address their financing needs in their day-to-day operations. Our working capital loans include short-term loans due within one year and medium-term loans due in one to three years. Our working capital loans are generally secured by collaterals or guarantee.

Fixed Asset Loans

We provide fixed asset loans to our corporate banking customers mainly to address their financing needs for fixed asset investment projects, including infrastructure construction, road construction, building construction and other projects. Generally, our fixed asset loans have maturities between one to 10 years. Depending on the corporate banking customers' needs, our fixed assets loan are available for periods of up to 20 years.

Other Loans

We also provide financing support of other kinds tailored to our corporate banking customers' needs, such as trade financing, which can have maturities between one month to one year.

Distribution of Corporate Loans by Maturity

Our corporate loans comprise short-term loans and advances, and medium- and long-term loans. The following table sets forth our corporate loans by maturity as of the dates indicated.

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)							
Short-term loans and advances[(1)]	30,396.7	59.4%	32,076.4	60.1%	33,680.3	53.0%	32,663.9	46.1%
Medium- and long-term loans[(2)]	20,801.0	40.6%	21,334.2	39.9%	29,818.8	47.0%	38,126.9	53.9%
Total corporate loans	**51,197.7**	**100.0%**	**53,410.6**	**100.0%**	**63,499.1**	**100.0%**	**70,790.8**	**100.0%**

Notes:

(1) Short-term loans and advances are loans and advances with a maturity of one year or less.

(2) Medium- and long-term loans are loans that mature in more than one year.

For a detailed explanation on the fluctuation of distribution of our corporate loans by maturity, please see "Assets and Liabilities — Assets — Loans and Advances to Customers — Distribution of Loans by Business Line — Corporate Loans — Distribution of Corporate Loans by Contract Maturity".

Distribution of Corporate Loans by Customer Type

The majority of our corporate loan customers are state-owned and private institutions and enterprises located or otherwise having their primary operations in Shandong Province. We provide our corporate loan customers with a wide range of commercial lending solutions. Our corporate loan customers are engaged in a broad range of industries, including manufacturing, construction, wholesale and retail, leasing and commercial services, and accommodation and food services. For details of the distribution of our corporate loans by industry, please see "Assets and Liabilities — Assets — Loans and Advances to Customers — Distribution of Loans by Business Line — Corporate Loans — Distribution of Corporate Loans by Industry".

The following table sets forth our corporate loans by customer type as of the dates indicated.

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)							
Large enterprises[1]	10,051.2	19.6%	10,417.7	19.5%	12,180.6	19.2%	12,076.5	17.1%
Medium enterprises[1]	15,770.3	30.8%	17,880.7	33.5%	21,729.8	34.2%	26,721.6	37.7%
Small enterprises[1]	22,405.4	43.8%	22,617.8	42.3%	24,556.1	38.7%	26,395.7	37.3%
Micro enterprises[1]	1,952.1	3.8%	1,553.3	2.9%	3,171.3	5.0%	3,431.9	4.8%
Others[2]	1,018.7	2.0%	941.1	1.8%	1,861.3	2.9%	2,165.1	3.1%
Total corporate loans	**51,197.7**	**100.0%**	**53,410.6**	**100.0%**	**63,499.1**	**100.0%**	**70,790.8**	**100.0%**

Notes:

(1) The classification criteria for large, medium, micro and small enterprises are based on the number of their employees, operating income and total assets, as stated in the Classification Standards of Small and Medium Enterprises. Please see "Definitions and Technical Terms" section.

(2) Primarily included loans to public institutions.

Loans to Large and Medium Enterprises

Large and medium enterprises are valuable to our business operations. Leveraging our deep understanding of the local economy and local market trends in Shandong Province and Tianjin Municipality, we endeavor to design and offer loan products that meet the specific needs of our corporate banking customers. Throughout all these years and as part of our long-term strategy, we have developed and maintained long-standing relationships with our large and medium corporate banking customers, including local governments and their affiliated entities, national and provincial state-owned enterprises and private enterprises based in Shandong Province and Tianjin Municipality. Our corporate banking department at our headquarters maintains a list of key corporate banking customers with whom we intend to maintain long-term strategic relationships. For details, please see "— Corporate Banking — Corporate Banking Customer Base".

Our market position is mainly focusing in serving high-end corporate banking customers such as large state-owned enterprises and listed companies, particularly corporate banking customers with strong creditworthiness that engage in industries with strategic importance to the PRC's economy. In addition to the traditional working capital loans and fixed assets loans, we also strive to provide comprehensive supply chain finance and trade finance services to our large and medium enterprises customers in order to cultivate our long-term strategic relationship and at the same time, with a view to capture new business opportunities arising from their upstream and downstream business partners. Our large and medium enterprises customers engage in a broad range of industries, primarily consisting of (i) manufacturing; (ii) leasing and commercial services; (iii) construction; (iv) wholesale and retail; and (v) water conservancy, environment and public facilities management.

As of December 31, 2017, 2018, 2019 and March 31, 2020, our loans to large and medium enterprises amounted to RMB25,821.5 million, RMB28,298.4 million, RMB33,910.4 million and RMB38,798.1 million, respectively, accounting for 50.4%, 53.0%, 53.4% and 54.8%, respectively, of our total corporate loans as of the aforesaid dates.

Loans to Micro and Small Enterprises

We are committed to offering customized loan products and services to meet the diversified financing needs of micro and small enterprises in Shandong Province such as to meet their working capital requirements. In particular, taking into account the factors that micro and small enterprises often have urgent and frequent financing needs, we designed and developed different credit management systems for micro and small enterprises loans, which effectively enhanced efficiency of risk management.

Our micro and small enterprises customers engage in a broad range of industries, primarily consisting of (i) manufacturing; (ii) leasing and commercial services; (iii) water conservancy, environment and public facilities management industries; and (iv) wholesale and retail. Our corporate loans to these industries accounted for 26.4%, 21.8%, 12.4% and 12.4% of our total corporate loans to micro and small enterprises as of March 31, 2020, respectively.

We have established an Inclusive Finance Department in 2017, focusing on developing and offering accessible and affordable financial products and services to underserved micro and small enterprises customers in Shandong Province and Tianjin Municipality. Under our Inclusive Finance Department, we further established two separate teams each managing different loan scale. These two teams are (i) SME Business Center ("直營中心") (the "**SME**

Business Center"), which is mainly responsible for loans between RMB1.0 million and RMB10.0 million; and (ii) Financial Service Center for Micro and Small Enterprises ("小微金融服務中心") (the "**Micro Loan Center**"), which is mainly responsible for loans under RMB1.0 million.

Utilizing government's big data credit reporting platform, in March, we launched Government E-finance, a micro and small financial product, which allows us to rate relevant enterprises by building an enterprise social credit rating model through integrating judicial, tax, industrial and commercial and social security data in relation to relevant enterprises, according to which, we may provide qualified enterprises with short-term working capital loans. Applicants for Government E-finance can enjoy various benefits, including comparatively high credit amount and flexible repayment methods. Online Business Loan was launched in July, 2019 through the collaboration with a well-known online platform. This is an unsecured working capital loan designed for qualified micro and small enterprises and individual business owners.

As of December 31, 2017, 2018, 2019 and March 31, 2020, our loans to micro and small enterprises amounted to RMB24,357.5 million, RMB24,171.1 million, RMB27,727.4 million and RMB29,827.6 million, respectively, accounting for 47.6%, 45.2%, 43.7% and 42.1% of our total corporate loans, respectively, as of the same date. For discussion on risk arising from our loans granted to micro and small enterprises, please see "Risk Factors — Risks Relating to Our Business — We are exposed to risks arising from loans granted to micro and small enterprises and should our micro and small enterprises customers default on their loan payment to us, our business, financial condition and results of operations may be materially and adversely affected".

In addition to the lending options and services described above, we also provide credit support to individual business owners, whose financing needs are inextricably connected with the daily operation of their business. For details on our personal business loans, please see the subsection headed "— Retail Banking — Personal Loans".

Discounted Bill

Discounted Bills refers to financial services where customers apply to the bank for discounting of unexpired bank acceptance bills or commercial acceptance bills, and the bank pays the remaining amount to the customers after deducting the discounted interest from the par value. Our discounted bills business effectively supplements our loan products.

As of December 31, 2017, 2018, 2019 and March 31, 2020, our discounted bills amounted to RMB3,917.8 million, RMB6,604.1 million, RMB6,661.1 million and RMB8,910.6 million, respectively, accounting for 5.9%, 8.8%, 7.2% and 8.6%, respectively, of our total loans to customers as of the same dates. During the Track Record Period, most of our discounted bills were bank acceptance bills, which generally carry lower credit risk compared with commercial acceptance bills. As of the Latest Practicable Date, substantially our discounted bills were electronics bills.

We also operate interbank discounted bills and bill rediscount business in our financial markets business segment. For details, please see “— Financial Markets — Bill Discounting and Rediscounting”.

Corporate Deposits

We offer a broad range of deposit products for our corporate banking customers, including time and demand deposits in Renminbi. In addition, we also offer a variety of deposit products with different maturities date and interest rates in order to capture the demands of various target corporate banking customers. Our corporate deposit customers include government agencies, public institutions, state-owned enterprises and private enterprises. As of December 31, 2017, 2018, 2019 and March 31, 2020, our total corporate deposits amounted to RMB81,019.4 million, RMB70,997.2 million, RMB84,439.9 million and RMB92,278.7 million, respectively, accounting for 67.4%, 61.3%, 59.4% and 59.5%, respectively, of our total deposits from customers as of the same dates.

Our time deposit products have maturities ranging from one day to five years. In addition, we also offer negotiated deposit products that have customized interest rates and other terms. For instance:

- We offer Large Denomination Certificate of Deposits (“大額存單”) (the “**Large Denomination Certificate of Deposits**”) that come with flexible deposit terms such as maturity date, withdrawal restrictions and etc., to non-financial institution corporate banking customers. Our Large Denomination Certificate of Deposits are essentially deposit vouchers issued by us in large denominations whereby holders of our Large Denomination Certificate of Deposits can enjoy higher interest rate compared to those traditional time deposit products with the same tenor. It also offers good liquidity as holders of our Large Denomination Certificate of Deposits can withdraw all or part of the deposits before maturity. As of December 31, 2017, 2018, 2019 and March 31, 2020, our total deposits under Large Denomination Certificate of Deposits amounted to RMB870.6 million, RMB3,908.9 million, RMB4,148.9 million and RMB4,593.1 million, respectively.

- Apart from Large Denomination Certificate of Deposits, we also offer Structured Deposits (“結構性存款”) (the “**Structured Deposits**”) to our corporate banking customers. Our Structured Deposits are essentially a combination of a deposit and an investment product, where the return depends on the trading performance of the derivatives linked to it. Typical underlying financial derivative instruments linked to our Structured Deposits include interest rates or foreign exchange. Maturity period ranges from seven days, 14 days and one month. Main benefits of our Structured Deposits include diversification into the derivatives trading and potentially higher returns and yields as compared to traditional fixed deposits products. As of December 31, 2017, 2018, 2019 and March 31, 2020, our total deposits under Structured Deposits amounted to RMB3,748.5 million, RMB3,573.0 million, RMB9,721.1 million and RMB17,336.8 million, respectively. On October 18, 2019, the CBIRC issued the Structured Deposit 2019 Notice which stipulated certain requirements under the notice. For details of the Structured Deposit 2019 Notice, please see "Supervision and Regulation — Regulation on Principal Commercial Banking Activities — Structured Deposit Business". As advised by our PRC Advisors, we have compiled with the requirements stipulated in the Structured Deposit 2019 Notice.

Through these products, we have successfully enhanced our capability in providing our corporate banking customers with competitive returns and satisfying their day-to-day cash management needs whilst at the same time offering deposit solutions that suit their investment objectives. The following table sets forth our corporate deposits by product type as of the dates indicated.

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)							
Corporate demand deposits	43,864.9	54.1%	38,738.6	54.6%	40,815.1	48.3%	44,824.6	48.6%
Corporate time deposits	37,154.5	45.9%	32,258.6	45.4%	43,624.8	51.7%	47,454.1	51.4%
Total corporate deposits	**81,019.4**	**100.0%**	**70,997.2**	**100.0%**	**84,439.9**	**100.0%**	**92,278.7**	**100.0%**

In addition to corporate loans and corporate deposit services, we also offer transaction banking services, investment banking services and other fee-and commission-based products and services for our corporate banking customers, such as corporate wealth management services, entrusted loan services, payroll services and guarantee services. For more details, please see subsections headed "— Corporate Banking — Transaction Banking Services", "— Corporate Banking — Investment Banking Services" and "— Corporate Banking — Other Fee- and Commission-Based Corporate Banking Products and Services".

Transaction Banking Services

We provide our corporate banking customers with a broad range of transaction banking services, including cash management, supply chain finance, trade finance and settlement services. During the Track Record Period, transaction banking played an increasingly important role in our corporate banking business and contributed to part of our fee and commission income.

We consider these transaction banking services our competitive advantage as they allow us to leverage our technology capacities and long-term relationships with strategic customers to capture business opportunities in Shandong Province and other regions in the PRC.

Cash Management Services

We provide integrated cash management services to our corporate banking customers through which we assist them with managing their cash flows, including account management, collection and payment management, liquidity management, bill management and investment and financing services. We believe these services can help our corporate banking customers reduce their financial costs whilst at the same time increase their capital gains, optimize the structure of assets and liabilities and thus achieve a balance between liquidity and profitability.

Capitalizing on our strong capability in utilizing advanced technology and offering quality cash management services, we have successfully captured market demands from different government agencies and institutional customers in Shandong Province brought up by the economic reform in recent years. By thoroughly analyzing the cash management requirements associated with the daily operations of our corporate banking customers in different industries, we have developed a compatible product system and tailor-made services to better fit their demands.

We believe that, by offering these services, we have strengthened our long-term cooperation with different government agencies, which significantly expanded our access to potential customers and further enhanced our competitive edges over industry peers.

Supply Chain Finance Services

We provide supply chain finance services to the upstream suppliers and downstream customers of selected corporate banking customers in line with our customer development strategy. We provide prepayment financing services and domestic factoring to meet these customers' financing needs. For instance, we launched Baoduicang ("保兑倉") (the "**Baoduicang**") in 2014, which is designed specifically for our distributor customers. By depositing a certain percentage of security deposit, distributors can obtain a bank acceptance bill from us to pay for stocks and supplies on a revolving basis. Distributors can enjoy this service as long as they continue to deposit the required security deposit with us. In addition to Baoduicang, we launched Changshangyin ("廠商銀") (the "**Changshangyin**") in 2012, a product specifically designed for distributors. On the condition that relevant distributors pledge valid bills of lading to us, we will grant loans and bank acceptance bills for their working capital use. We will only release the bills of lading upon full repayment by the borrowers.

In addition to the above, we also provide accounts receivables financing, such as domestic factoring, reverse factoring, and loans pledged by receivables. Most of our customers we serve come from mainstream manufacturing sectors such as pharmaceutical industry and chemical industry.

As of December 31, 2017, 2018, 2019 and March 31, 2020, the balance of our supply chain finance products amounted to RMB534.0 million, RMB294.5 million, RMB150.5 million and RMB161.3 million, respectively.

Trade Finance Services

We offer a broad range of financial products and services such as letter of credits, guarantees and remittance etc., for our corporate banking customers involved in export trading, import trading, domestic trading and cross-border transactions. In recent years, we have launched a few innovative trade finance products, including an online factoring product under the e-Baotong ("e保通") (the "**e-Baotong**") and export financing product under the Xinbaotong ("信保通") (the "**Xinbaotong**"). Our trade finance customers are primarily engaged in the manufacturing industry and the wholesale and retail industries. For the year ended December 31, 2019 and three months ended March 31, 2020, the transaction amount of our trade finance services amounted to approximately USD3,738.6 million and USD854.2 million, respectively.

Settlement Services

We offer corporate banking customers with domestic and international settlement services. As of December 31, 2019, we had established agency relationships with over 251 banks in mainland China, HK, German and US to cover settlement services worldwide.

- *Domestic settlement.* Our domestic settlement products and services primarily include settlement effected through drafts, promissory notes, bank acceptance bills, commercial acceptance bills, letters of credit and telegraphic transfers.

  In particular, the bank acceptance bill refers to a bill issued by a drawer with the approval of a bank, according to which, the bank guarantees to pay a pre-determined amount to the payee or the holder of the bill unconditionally on a specified date. All of our bank acceptance bills are in Renminbi, and their terms are generally not more than six months for paper bills or one year for electronic bills. For the year ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, the accumulated amount of promised payment specified in our bank acceptance bills was RMB40,045.9 million, RMB31,356.3 million, RMB32,499.5 million, RMB8,748.4 million and RMB11,174.9 million, respectively, and the accumulated defaulted amount arising from bank acceptance bills was RMB82.8 million, RMB85.8 million, RMB318.1 million, RMB213.8 million and RMB66.4 million, which represented a default ratio of 0.21%, 0.27%, 0.98%, 2.44% and 0.59%, respectively, for the years ended December 31, 2017, 2018 and 2019 and for the three months ended March 31, 2019 and 2020.

- *International settlement.* Our international settlement services primarily include inbound and outbound remittances, import and export collection, import and export letters of credit and cross-border RMB settlement. As of Latest Practicable Date, we have 20 branches and sub-branches that offer international settlement services. As of March 31, 2020, we provided international settlement services to a total of 406 corporate banking customers and the cumulated amount of our international settlement amounted to USD690.4 million.

Investment Banking Services

*Structured Financing and Asset Backed Securities ("**ABS**")*

Our investment banking team offers structured financing and ABS services. With respect to structured financing, we assist our corporate banking customers with devising and setting up transaction structures, utilizing SPVs and other instruments, in compliance with PRC laws and regulations.

In addition to traditional corporate loans, we also participate in the issuance of ABS to our corporate banking customers as part of our liquidity management. In January 2015, we became the first batch financial institution based in Shandong Province to obtain approval from the CBIRC to conduct ABS business operation. In general, we enter into trust agreement with trust company in the PRC, according to which we entrust our credit assets to such trustee who subsequently issues security products collateralized by such assets to qualified investors. The underlying assets of an ABS are typically illiquid. Therefore, by pooling the assets together and selling them under a new financial product, we are able to convert these illiquid assets into cash, which may be used to facilitate more lending and at the same time, provide liquidity to our business operation.

Our investment banking team also provides corporate banking customers with the negotiation of syndicated loans and merger and acquisition financing as well as offer related advisory services. Our merger and acquisition financing services, for example, are designed primarily for enterprises with strong earning prospect, solid corporate governance and a vision to expand, especially those from industries encouraged by the PRC Government.

Debt Securities Underwriting

Our investment banking team actively participates in the underwriting of debt securities to leverage our strong capacity in managing capital market transactions, and to broaden our customer base. Capitalizing on our expertise in debt securities and analytical capabilities on China's economy, we aim to accurately seize market opportunities for security issuance, and to establish and maintain long-term relationships with our investors, all of which enabled us to achieve a strong track record in recent years and enhance our market recognition.

We obtained the qualification for underwriting of financial bonds of the Agricultural Development Bank of China in 2011, the qualification for underwriting of the bonds of Shandong Province in 2015, the qualification for the bonds of Qingdao Municipal Government in 2017 and the qualification for underwriting of Tianjin Municipal Government bonds in 2019. Our main corporate banking customers in debt securities underwriting were China Agricultural Development Bank, Shandong Provincial Government, Qingdao Municipal Government and Tianjin Municipal Government. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, the total principal amount of bonds we underwritten was RMB6.0 billion, RMB11.6 billion, RMB16.7 billion, RMB7.8 billion and RMB4.2 billion, respectively.

Financial Advisory Services

We provide financial advisory services to corporate banking customers who engage in financing projects. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, net fee and commission income derived from our financial advisory services amounted to RMB107.8 million, RMB111.1 million, RMB61.2 million, RMB16.0 million and RMB22.8 million, respectively.

Other Fee- and Commission-Based Corporate Banking Products and Services

We provide our corporate banking customers with other fee- and commission-based products and services, primarily including corporate wealth management services, entrusted loan services, payroll services and guarantee services. For the year ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, our net income from other fee- and commission-based corporate banking products and services amounted to RMB2.7 million, RMB3.9 million, RMB7.2 million, RMB0.4 million and RMB3.4 million, respectively.

Corporate Wealth Management Services

We provide differentiated wealth management products with flexible terms and yields based on customers' needs and risk tolerance levels, in line with relevant PRC laws and regulations. As of March 31, 2020, our corporate wealth management products only consisted product which are non-principal protected products with floating yields. For more details on the corporate wealth management products we issued, please see "— Financial Market — Wealth Management".

For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, the wealth management products we issued and sold to corporate customers (including interbank customers) amounted to RMB10,816.6 million, RMB7,986.1 million, RMB8,533.4 million, RMB1,404.6 million and RMB2,405.5 million, respectively. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, our net fee and commission income generated from the sale of corporate wealth management products (including interbank products) we issued amounted to RMB26.4 million, RMB9.0 million, RMB11.0 million, RMB7.2 million and RMB1.3 million, respectively.

Entrusted Loans Services

We extend entrusted loans to borrowers on behalf of our corporate banking customers according to their lending purpose, amount, term, and interest rate. We monitor the loan utilization status and assist with the collection of loans for relevant corporate banking customers who, being the principals, assume the default risk of the loans, while we receive agency fees based on the entrusted loan amounts.

Payroll Services

We provide government agencies, public institutions as well as corporations, particularly large enterprises and conglomerates, with agency services, primarily including payroll. As of December 31, 2017, 2018, 2019 and March 31, 2020, we had entered into payroll and payment agency service agreements with 5,691, 6,760, 7,292 and 7,551 enterprises and institutions, respectively. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, the amount of payment through our payroll services amounted to RMB8,299.1 million, RMB9,567.8 million, RMB10,640.1 million and RMB2,988.7 million and RMB3,015.7 million, respectively.

Guarantee Services

We provide various guarantee services to our corporate banking customers, mainly in the form of bid guarantees, contract performance guarantees and prepayment guarantees.

Corporate Banking Customer Base

We have established a large and stable corporate banking customer base in Shandong Province and Tianjin Municipality. Our corporate banking customers consist primarily of government agencies, state-owned enterprises, public institutions and industrial and commercial enterprises in Shandong Province and Tianjin Municipality. As of December 31, 2017, 2018, 2019 and March 31, 2020, the number of our corporate banking customers were 32,016, 36,400, 40,978 and 42,189, respectively. Our corporate banking customers are primarily from the industries of (i) manufacturing, (ii) wholesale and retail, (iii) water conservancy, environment and public facilities management, (iv) construction, and (v) leasing and business services, which are critical to the infrastructure improvement, the livelihood and the local economy in Shandong Province.

Our corporate banking department at our headquarters maintains a list of key corporate banking customers with whom we intend to maintain long-term strategic relationships, including local governments and their affiliated entities and private enterprises. We conduct annual re-examination of the business development and financial condition of these key customers, so that we can timely identify and capture potential business opportunities. To optimize our customer portfolio, we pay particular attention to capturing business opportunities presented by national and provincial industry development policies. During the Track Record Period, we had established stable business relationships with various key corporate banking customers in Shandong Province, both in traditional industries such as manufacturing, leasing and business services, transportation, warehousing and postal services and in emerging industries such as water conservancy, environment and public facilities management. We provide such customers with comprehensive financial services ranging from loan extension to settlement services. As of March 31, 2020, we had also entered into cooperation agreements with government authorities of three cities and three economic or industrial cluster zones in

Shandong Province, through which we were given priority in participating in large-scale projects in the relevant regions, thereby enhancing our competitive position in seeking new business opportunities within the public sector.

We invest in developing quality customers and seeking projects in sectors with leading market position, strong growth potential and which are encouraged by government policies, including projects in tourism sector, large infrastructure projects and projects in transportation industry. For example, during the Track Record Period, we provided a total of approximately RMB7,717.4 million credit support to 81 projects in Shandong Province. For details of our corporate loans, please see "— Loans to Large and Medium Enterprises". We believe that these measures help us stand out from industry peers and have substantially enhanced our customer loyalty.

We uphold the corporate culture of emphasizing customer care in servicing our corporate banking customer needs. As a testimonial to our effective customer management, we have achieved continued growth in our corporate banking customer base during the Track Record Period. In addition, we were rated as the "National Top 10 City Commercial Bank" for four consecutive years from 2016 to 2019 by Financial News. We believe that because of our unique corporate culture and our differentiated products and services, we are an attractive banking partner for start-ups and established businesses, especially the micro and small enterprises in Shandong Province that seek a professional and trusted bank with results-oriented approach and speedy loan processing.

Retail Banking

Overview

We provide our retail banking customers with a wide range of products and services, including personal loans, personal deposits, card services, and other fee and commission-based products and services. We do not target a particular retail banking customer segments or profile and instead seeks to attract the business of mass market retail banking customers. Within our retail banking business, we aim to provide a simple, transparent and easy-to-understand products to our retail banking customers, together with excellent customer services.

In order to reach out to mass market of retail banking customers, we have strategically placed our branches and sub-branches in selected locations. We have established an extensive business network covering the whole Shandong Province and fully penetrated into regions with strong economic growth. In addition, we also received strong support from our Tianjin branch. As of March 31, 2020, we had a total of 119 outlets, which helps us to reach out to mass market of retail banking customers as evidenced by the increased number of retail banking customers we had during the Track Record Period. We had approximately 2.3 million, 2.6 million, 2.9 million and 2.9 million of retail banking customers as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. We believe that our extensive footprint and strong customer relationships in the Shandong Province market allow us to compete more effectively for lending and other revenue opportunities. As of December 31, 2017, 2018, 2019 and March 31, 2020, our retail banking customer deposits amounted to RMB38,872.4 million, RMB44,683.6 million, RMB57,699.9 million and RMB62,512.1 million, respectively. The total personal loans and advances to our retail banking customers have also grown significantly, from RMB11,403.1 million as of December 31, 2017 to RMB23,964.6 million as of March 31, 2020.

For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, operating income from our retail banking business amounted to RMB522.0 million, RMB714.4 million, RMB897.2 million, RMB245.8 million and RMB347.2 million, respectively, accounting for 13.4%, 18.6%, 18.1%, 21.2% and 23.7%, respectively, of our total operating income for the same periods.

Personal Loans

We provide our retail banking customers with various personal loans, including residential mortgage loans, personal business loans, and personal consumption loans. As of December 31, 2017, 2018, 2019 and March 31, 2020, our personal loans amounted to RMB11,403.1 million, RMB15,181.0 million, RMB22,291.4 million and RMB23,964.6 million, respectively, accounting for 17.1%, 20.2%, 24.1% and 23.1%, of our total loans to customers, respectively, as of the same dates.

The following table sets forth our personal loans by product type as of the dates indicated.

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)							
Residential mortgage loans	6,029.7	52.9%	7,848.1	51.7%	9,968.9	44.7%	10,523.4	43.9%
Personal consumption loans	828.7	7.3%	793.3	5.2%	1,980.5	8.9%	2,554.3	10.7%
Personal business loans	4,520.9	39.6%	6,488.4	42.8%	9,882.2	44.3%	10,372.3	43.3%
Credit card balances	23.8	0.2%	51.2	0.3%	459.8	2.1%	514.6	2.1%
Total personal loans	**11,403.1**	**100.0%**	**15,181.0**	**100.0%**	**22,291.4**	**100.0%**	**23,964.6**	**100.0%**

Residential Mortgage Loans

We provide our retail banking customers with residential mortgage loans to facilitate their purchases of new and second-hand residential properties. Residential mortgage loans are secured by the underlying properties being purchased by borrowers and with a term of up to 30 years. Depending on the local government's rules and policies, our residential mortgage loan amount generally does not exceed 80.0% of the purchase price or appraisal value of the property if the applicant intends to buy his/her first residential property, and such limit will not exceed 70% if the applicant already holds one residential property.

As of December 31, 2017, 2018, 2019 and March 31, 2020, our residential mortgage loans amounted to RMB6,029.7 million, RMB7,848.1 million, RMB9,968.9 million and RMB10,523.4 million, respectively, accounting for 52.9%, 51.7%, 44.7% and 43.9% of our total personal loans, respectively, as of the same dates.

For a detailed explanation of the significant growth of our residential mortgage loans business during the Track Record Period, please see "Assets and Liabilities — Assets — Loans and Advances to Customers — Distribution of Loans by Business Line — Personal Loans". For risk associated with residential mortgage loans business, please see "Risk Factors — Risks Relating to Our Business — Any significant or protracted downturn in, or change in national policies affecting the real estate market in the PRC may have a material adverse effect on our business, asset quality, financial condition and results of operations".

Personal Consumption Loans

We provide personal consumption loans to our retail banking customers for their personal and household consumption needs, such as home renovation, education, traveling and purchases of durable consumer goods generally through a series of loan products under the brand name of Happy Consumption Loan ("快樂消費貸") (the "**Happy Consumption Loans**"). Under our Happy Consumption Loan series, there are a variety of personal consumption loans designed to cater different purposes, for instance, for purchasing of car, renovation, to cover the expenses of overseas study etc.

In addition to the above basic credit loan products, in 2016, we also launched our featured revolving personal consumption loan product series Wang Yi Loan, which is an online personal comprehensive consumption credit loan with a term ranging from one to 36 months, adjustable based on each borrower's credit history and financial condition. The loan granted under Wang Yi Loan is revolving loan and borrower can draw the loan and repay the loan through mobile banking and online banking channels, which provide borrower with greater convenience and efficiency.

As part of our long-term strategy to move into digital transformation and in order to expand our reach into new digital-savvy generation of retail banking customers and enhance their customer experience, we also provide personal consumption loans through our electronic banking channels which we believe will allow us to tap into a greater market and promote our brand. For details of our electronic banking channel, please see "— Distribution Network — Electronic Banking Channels" in this section.

As of December 31, 2017, 2018, 2019 and March 31, 2020, our personal consumption loans amounted to RMB828.7 million, RMB793.3 million, RMB1,980.5 million and RMB2,554.3 million, respectively, representing 7.3%, 5.2%, 8.9% and 10.7% of our total personal loans, respectively, as of the same dates.

Personal Business Loans

We provide personal business loans to private or individual business owners (including micro and small enterprises customers) to serve their business operation needs. Considering that the capital needs of these business owners are often relatively urgent, more frequent and in smaller amounts, we offer diversified products to satisfy their requirements. In managing our personal business loans to individual business owners, we also leverage the team in our SME Business Center and Micro Loan Center, please see "— Corporate Banking — Loans to Micro and Small Enterprises".

Through years of efforts, we have introduced new featured personal business loan products that have been well received by the market, including:

- We introduced Online Business Loan in July 2019 through the collaboration with a well-known online platform. This is an unsecured working capital loan designed for qualified retail banking customers. In determining credit amount and terms of loans, we take various factors into consideration, including whether they have passed relevant credit tests, their business track record, and our own risk management measures. Online Business Loan can have a term of three months, six months or 12 months, depending on the borrower's preference and needs.

  As of March 31, 2020, our online business loan amounted to RMB573.2 million and the loan balance was RMB242.7 million.

- We introduced Commercial Vehicle Loan in April 2017. Commercial Vehicle Loan is a well-received loan product among micro and small business owners in Shandong Province. It is intended to capture micro and small individual customers as well as those individual business owners who wish to acquire vehicle for business operation. It can have a term of up to three years and it is secured against the vehicles purchased by the borrowers. Generally, the maximum loan amount of our Commercial Vehicle Loan does not exceed 70% of the appraisal value of the vehicles used as collaterals. Unlike large to medium enterprises, individual business owners often have urgent and frequent financing needs. Accordingly, we have streamlined the loan application and approval process by launching an online and paperless approval process for our Commercial Vehicle Loan in September 2019. The process will consider, among others, the borrower's credit report, internal rating, maximum loan amount and the whole process can be completed within 3 working days.

  As of December 31, 2017, 2018, 2019 and March 31, 2020, our Commercial Vehicle Loan amounted to RMB711.6 million, RMB2,105.0 million, RMB5,200.0 million and RMB5,323.0 million, respectively, accounting for 6.2%, 13.9%, 23.3%, and 22.2% of our total personal loans, respectively, as of the same dates.

- We launched Property e Loan in September 2019 for our retail banking customers who are able to provide real properties as collaterals. This is our first personal business loan product accessible through online platform. The maximum loan amount of this loan product is RMB5.0 million, with a maximum term of up to three years. Retail banking customers can apply through a streamlined and automated online process by submitting collateral details and other relevant information. In evaluating the loan applications as well as borrower's eligibility, loan amounts and valuation of the collaterals, we utilize big data to analyze each application, value of the collaterals and repayment ability of each borrower. As part of our risk management to manage the risks associated with this loan product, we will also carry out an onsite physical inspection of the collaterals before releasing the funds.

As of December 31, 2017, 2018, 2019 and March 31, 2020, our personal business loans amounted to RMB4,520.9 million, RMB6,488.4 million, RMB9,882.2 million and RMB10,372.3 million, respectively, representing 39.6%, 42.8%, 44.3% and 43.3% of our total personal loans, respectively, as of the same dates.

Credit Card Balances

We provide credit card users with payment, transfer, settlement and cash-deposit and withdrawal and other services. As of December 31, 2017, 2018, 2019 and March 31, 2020, our credit card balances amounted to RMB23.8 million, RMB51.2 million, RMB459.8 million and RMB514.6 million, respectively, accounting for approximately 0.2%, 0.3%, 2.1% and 2.1% of our total personal loans, respectively. For details of our credit card, please see "— Retail Banking — Credit Card".

Personal Deposits

We offer traditional personal deposit products, including demand deposits and time deposits. As of December 31, 2017, 2018, 2019 and March 31, 2020, our total personal deposits amounted to RMB38,872.4 million, RMB44,683.6 million, RMB57,699.9 million and RMB62,512.1 million, respectively, accounting for 32.4%, 38.6%, 40.6% and 40.4% of our total deposits from customers, respectively. The following table sets forth our personal deposits by product type as of the dates indicated.

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)							
Demand deposits	6,081.6	15.6%	7,041.2	15.8%	7,808.4	13.5%	7,577.3	12.1%
Time deposits	32,790.8	84.4%	37,642.4	84.2%	49,891.5	86.5%	54,934.8	87.9%
Total personal deposits	**38,872.4**	**100.0%**	**44,683.6**	**100.0%**	**57,699.9**	**100.0%**	**62,512.1**	**100.0%**

In addition to the traditional demand deposits and time deposits, to better engage and retain medium- to high-end customers, we also offer "certificate of deposits (大額存單)" (the "**Personal Certificate of Deposits**") to our retail banking customers with savings over RMB200,000, where we could provide differentiated terms and conditions to allow them to enjoy more favorable interest rates. One of the main features of our Personal Certificate of Deposits is interest income is payable on monthly basis. As of December 31, 2017, 2018, 2019 and March 31, 2020, our total Personal Certificate of Deposits amounted to RMB3,751.9 million, RMB11,176.7 million, RMB11,626.6 million and RMB13,134.7 million, respectively.

Card Services

Debit Cards

We issue debit cards under various brand names to capture customers looking for different financial products and services. For ordinary debit cards, our customers could access regular services such as deposits and withdrawals, consumption, transfers and remittances, and wealth management. In addition, we launched VIP cards for customers who are at the same time our gold-tier customers, platinum-tier customers, diamond-tier customers and private banking customers. Holders of our VIP cards can enjoy additional services compared to traditional debit cards such as free of charge for ATM cross-bank withdrawal, access to Weihai City Airport VIP lounge, access to fingerprint safety deposit box and other preferential services.

We also cooperate with Weihai Citizen Card Co., Ltd. ("威海市民卡有限公司") to jointly issue Weihai Citizen Card, which provides cardholders with access to residents' health services, public utilities payment, access to government services, access to exclusive wealth management products etc. As of March 31, 2020, we have issued a total of 1.3 million Weihai Citizen Cards.

In addition, we are a member of China UnionPay, which enables debit cards issued by us to be used in China UnionPay's network in China and in other foreign countries and regions.

As of December 31, 2017, 2018, 2019 and March 31, 2020, we had approximately 2.9 million, 3.2 million, 3.5 million and 3.6 million debit card accounts, respectively. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, total transaction amounts through our debit cards was RMB7,653.6 million, RMB9,559.7 million, RMB10,328.1 million, RMB2,278.3 million and RMB1,325.3 million, respectively.

Credit Cards

We obtained the qualification to issue credit cards to the general public in August 2017 and currently accept applications through our branches and sub-branches. As of March 31, 2020, we had issued 63,938 credit cards and our credit card balances amounted to RMB514.6 million. We offer our credit card holders credit spending, cash advances, installments and other banking services.

In addition, we issued Tongda Credit Card ("通達信用卡") in December 2017, a credit card which, in addition to the ordinary functions of other credit cards, offers card holders diversified installment products and convenient installment repayment services, including purchase of a car, consumer goods etc.

To offer different services to various target customer groups, we offer three types of credit cards, namely, ordinary card, gold card and platinum card, based on the credit ratings of the applicants. Holders of each type of credit cards can receive and enjoy specific services and benefits tailor-made for the respective type of card.

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

For our retail banking customers, we provide various fee- and commission-based retail banking products and services, primarily personal wealth management services, agency services, payroll and payment services, and settlement services. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, our net income from fee- and commission-based retail banking products and services (including card services) amounted to RMB26.4 million, RMB27.1 million, RMB62.6 million, RMB21.0 million and RMB29.3 million, respectively.

Personal Wealth Management Services

We provide our retail banking customers with personal wealth management products and services under different principal-protected and non-principal protected series, each designed to meet specific risk tolerance levels and investment return expectations of various target customer groups. In particular, our Caifu Tongda ("財富通達") is designed for customers who have low or medium risk preference, which provide a series of non-principal protected products with floating yields, with focus on investment in debt securities. For more details of our personal wealth management products, please see the subsection headed "— Financial Markets — Wealth Management".

For the year ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, the aggregated total amount of wealth management products we issued to retail banking customers amounted to RMB25,587.1 million, RMB52,191.6 million, RMB64,120.5 million, RMB12,117.5 million and RMB17,212.8 million, respectively. As of March 31, 2020, we had 63,816 personal wealth management customers. We plan to further diversify our product portfolio by introducing new types of personal wealth management products to cater to potential customers' varying demands.

Agency Services

Our agency services mainly include the following:

- Bancassurance. Entrusted by insurance companies, we distribute insurance products to retail customers as an agent. As of March 31, 2020, we had distributed insurance products as an agent for 18 insurance companies.

- Fund Distribution. Entrusted by the fund managers, we provide fund sales agency service to our customers. Our customers can subscribe to, purchase and redeem fund products over our counters, or through our personal online banking website or mobile banking app.

- Agency of Trading Precious Metals. We conduct agency sales and repurchase of precious metals including gold and craft precious metals as well as provide physical delivery service.

- Settlement Services. We offer settlement services to our retail banking customers, primarily including RMB denominated money transfer, deposit and withdrawal, remittance and collection.

Retail Banking Customer Base

We have an extensive retail banking customer base in Shandong Province and Tianjin Municipality. The customer base of our retail banking business has expanded significantly in recent years. We had approximately 2.3 million, 2.6 million, 2.9 million and 2.9 million of retail banking customers as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. The growth of our retail customer base was primarily due to the products and services we offered to our retail banking customers during the Track Record Period as well as our branch network. In order to reach out to mass market of retail banking customers, we have strategically placed our branches and sub-branches in selected prime locations. We have established an extensive business network covering the whole Shandong Province as well as selected regions in Tianjin Municipality and fully penetrated into regions with strong economic growth. As of December 31, 2019, we had a total of 118 outlets, which helps us to reach out to mass market of retail banking customers and support the growth of our retail banking customer base.

We provide differentiated services designed for customers of each category to improve customer loyalty. We also actively cooperate with other financial institutions to improve penetration of our products and services and at the same time, offer convenient retail banking services to our retail banking customers. We have entered into various cooperation agreements with well-known online platforms in the PRC in order to extend our retail banking services, including funds withdrawal or payments, through other platforms.

In line with our business development strategy, we pay particular attention to promoting our brand awareness and market recognition through developing financial products and services catered for various retail banking customers' needs. As part of our long-term strategy to move into digital transformation and in order to expand our reach into new digital-savvy generation of retail banking customers and enhance their customer experience, we also provide electronic banking services through our online banking, WeChat banking, mobile banking, self-service banking and telephone banking. We believe that these services will serve as foundation platforms for our retail banking customers to access banking services in a more efficient way and at the same time, promoting our brand. For more information on our electronic banking channels, also see "— Electronic Banking Channels". During the Track

Record Period, we also held various on-site sales and marketing activities in schools, residential communities and business districts to promote our products by directly appealing to the financial needs of relevant customer groups.

Financial Markets

Overview

Our financial markets business primarily consists of interbank market transactions, investment management, wealth management, debt securities distribution, and bill discounting and rediscounting. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, the operating income generated from our financial markets businesses amounted to RMB1,234.8 million, RMB870.2 million, RMB1,129.2 million, RMB269.2 million and RMB294.0 million, respectively, accounting for 31.6%, 22.7%, 22.8%, 23.2% and 20.1%, respectively, of our total operating income for the same periods.

Interbank Market Transactions

Our interbank market transactions business primarily consists of: (i) interbank deposits; (ii) interbank placements; and (iii) purchase under resale agreement and sale under repurchase agreement, which mainly involves bonds and bills.

For a detailed explanation of the fluctuations in our interbank market transactions, please see "Assets and Liabilities — Liabilities and Sources of Funds — Other Components of Our Liabilities" and "Assets and Liabilities — Assets — Other Components of Our Assets".

Interbank Deposits

As of December 31, 2017, 2018, 2019 and March 31, 2020, our deposits with banks and other financial institutions was RMB1,129.5 million, RMB1,054.9 million, RMB2,026.9 million and RMB1,064.9 million, respectively, and our deposits from banks and other financial institutions was RMB2,633.0 million, RMB7,431.0 million, RMB5,002.1 million and RMB4,864.3 million, respectively.

Interbank Placements

As of December 31, 2017, 2018, 2019 and March 31, 2020, our placements with banks and other financial institutions was RMB1,202.3 million, RMB1,271.9 million, RMB507.2 million and RMB568.0 million, respectively, and our placements from banks and other financial institutions was RMB6,686.0 million, RMB10,461.5 million, RMB10,429.5 million and RMB12,008.9 million, respectively.

Purchase under Resale Agreement and Sale under Repurchase Agreement

As of December 31, 2017, 2018, 2019 and March 31, 2020, our financial assets purchased under resale agreements was RMB15,058.1 million, RMB1,392.3 million, RMB5,386.6 million and nil, respectively, and our financial assets sold under repurchase agreements was RMB22,020.1 million, RMB5,762.5 million, RMB9,945.3 million and RMB5,794.8 million, respectively. The underlying financial assets in these transactions primarily comprise debt securities issued by PRC Government, policy banks, commercial banks and enterprises.

The interest rate for a purchase under resale agreement or sale under repurchase agreement transaction refers to the interest paid or earned from such transaction, which is the difference between the initial sale price and the buyback price, presented in the form of per annum percentage. As of December 31, 2017, 2018, 2019 and March 31, 2020, the interest rate for our financial assets purchased under resale agreements was in the ranges of 1.90% to 7.50%, 1.35% to 5.00%, 0.77% to 3.25% and 0.79% to 3.20%, respectively. As of December 31, 2017, 2018, 2019 and March 31, 2020, the interest rates for our financial assets sold under repurchase agreements were in the range of 1.97% to 7.20%, 1.41% to 5.00%, 0.84% to 3.18% and 0.75% to 2.85%, respectively.

Investment Management

Our investment management business mainly consists of debt securities investment and SPV Investment. Debt securities in which we invest include debt securities issued by the PRC Government, policy banks, commercial banks and other financial institutions, and enterprises. SPV Investment refers to our investments in trust plans, asset management plans, wealth management products, and investment funds.

When making debt securities investment and SPV Investment, we take into account a broad range of factors and strive to achieve a better balance between risks and returns. Factors that we consider include, but are not limited to, our risk appetite, capital consumption level and expected yields of relevant products, as well as overall economic conditions and relevant regulatory development. The fact that interest income from certain debt securities and funds is non-taxable is also one of factors that we consider. Based on the result of our analysis on these factors, we adjust our investment portfolio from time to time to enhance profitability while properly managing associated risks. Please also see "Risk Management — Credit Risk Management — Credit Risk Management for Our Financial Market Business — Credit Risk Management for Debt Securities Investment and SPV Investment" and "Risk Factors — Risks Relating to Our Business — We cannot assure you that the historical decreasing trend of our effective tax rate will continue in the future."

As of December 31, 2017, 2018, 2019 and March 31, 2020, our debt securities investment and SPV Investment amounted to RMB89,934.1 million, RMB85,476.4 million, RMB86,184.1 million and RMB92,469.6 million, respectively, accounting for 44.0%, 42.1%, 38.4% and 39.3%, respectively, of our total assets as of the same dates. The following table sets forth a breakdown of the total balance of our debt securities investment, SPV Investment and other investment as of the dates indicated.

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)							
Debt securities investment	48,477.3	52.9%	51,048.7	55.0%	53,474.2	60.7%	60,842.3	64.9%
SPV Investment:								
Trust plans	24,597.7	26.8%	19,805.7	21.4%	20,922.8	23.7%	20,210.5	21.5%
Asset management plans	13,204.7	14.4%	6,788.7	7.3%	3,246.1	3.7%	1,852.7	2.0%
Wealth management products	511.1	0.6%	1,115.1	1.2%	1,019.5	1.2%	506.7	0.5%
Funds	2,687.3	2.9%	769.7	0.8%	699.9	0.8%	710.1	0.8%
Other investments[1]	456.0	0.5%	5,948.5	6.4%	6,821.6	7.7%	8,347.3	8.9%
Subtotal	**41,456.8**	**45.2%**	**34,427.7**	**37.1%**	**32,709.9**	**37.1%**	**31,627.3**	**33.7%**
Equity investments	264.1	0.3%	71.1	0.1%	195.6	0.2%	193.7	0.2%
Other financial investments[2]	1,484.2	1.6%	7,228.0	7.8%	1,767.8	2.0%	1,141.0	1.2%
Total financial investments	**91,682.4**	**100.0%**	**92,775.5**	**100.0%**	**88,147.5**	**100.0%**	**93,804.3**	**100.0%**

Notes:

(1) Consist primarily of debt financing plan and asset-backed securities.

(2) Consist primarily of certificates of interbank deposit.

Debt Securities Investment

Our debt securities investment comprises investment in debt securities issued by PRC Government, policy banks, commercial banks and other financial institutions, and enterprises. The following table sets forth the breakdown of our debt securities investment as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)							
Debt securities issued by PRC Government	14,840.7	30.6%	12,731.1	24.9%	14,306.8	26.7%	15,240.1	25.0%
Debt securities issued by policy banks	24,722.7	51.0%	26,686.4	52.3%	24,755.9	46.3%	26,927.4	44.3%
Debt securities issued by commercial banks and other financial institutions	1,107.1	2.3%	1,058.9	2.1%	513.9	1.0%	466.6	0.8%
Debt securities issued by enterprises	7,806.8	16.1%	10,572.3	20.7%	13,897.6	26.0%	18,208.2	29.9%
Total debt securities investment	**48,477.3**	**100.0%**	**51,048.7**	**100.0%**	**53,474.2**	**100.0%**	**60,842.3**	**100.0%**

As of December 31, 2017, 2018, 2019 and March 31, 2020, our debt securities investment amounted to RMB48,477.3 million, RMB51,048.7 million, RMB53,474.2 million and RMB60,842.3 million, respectively, accounting for 23.7%, 25.1%, 23.8% and 25.9%, respectively, of our total assets as of the same periods. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, interest income generated from our debt securities investment amounted to RMB1,713.2 million, RMB1,597.4 million, RMB1,913.1 million, RMB460.0 million and RMB531.3 million, respectively, accounting for 20.4%, 22.0%, 21.4%, 22.4% and 21.3%, of our total interest income, respectively, for the same periods. For details on the interest income from debt securities investment and the relevant average yields, please see "Financial Information — Results of Operations for the Years Ended December 31, 2017, 2018 and 2019 — Interest Income — Interest Income from Financial Investments" and "Financial Information — Results of Operations for the Three Months Ended March 31, 2019 and 2020 — Interest Income — Interest Income from Financial Investments".

We have a professional debt securities investment team. When investing in debt securities, we conduct scenario analysis on market risks through various analytic tools, such as adverse movements of asset prices and fluctuations of benchmark rates in the market, formulate corresponding contingency plans, and adjust our investment strategies in a timely manner. For details, please see "Risk Management — Market Risk Management — Interest Rate Risk — Interest Rate Risk Management".

Our debt securities were classified in accordance with the applicable accounting rules, into financial investments measured at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables prior to January 1, 2018 and financial investments measured at fair value through other comprehensive income, financial investments measured at fair value through profit or loss, or financial assets measured at amortized cost after January 1, 2018. For details of the classification of financial assets, please see "Assets and Liabilities — Assets — Financial Investments — Classification of Financial Investments by Business Model and Cashflow Characteristics".

SPV Investment

Our SPV Investment mainly includes investment in trust plans, asset management plans, wealth management products and investment funds.

As of December 31, 2017, 2018, 2019 and March 31, 2020, our SPV Investment amounted to RMB41,456.8 million, RMB34,427.7 million, RMB32,709.9 million and RMB31,627.3 million, respectively, accounting for 20.3%, 16.9%, 14.6% and 13.4%, respectively, of our total assets as of the same periods. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, interest income generated from our SPV Investment amounted to RMB2,258.5 million, RMB977.7 million, RMB1,092.7 million, RMB252.1 million and RMB279.2 million, respectively, accounting for 26.9%, 13.5%, 12.2%, 12.3% and 11.2%, of our total interest income, respectively, for the same years. For details on the interest income from SPV Investment and the relevant average yields, please see "Financial Information — Results of Operations for the Years Ended December 31, 2017, 2018 and 2019 — Interest Income — Interest Income from Financial Investments" and "Financial Information – Results of Operations for the Three Months Ended March 31, 2019 and 2020 – Interest Income – Interest Income from Financial Investments".

The following table sets forth the breakdown of our SPV Investment by the underlying assets as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)							
SPV Investment:								
Trust plans	24,597.7	59.3%	19,805.7	57.5%	20,922.8	64.0%	20,210.5	63.9%
Asset management plans	13,204.7	31.9%	6,788.7	19.8%	3,246.1	9.9%	1,852.7	5.9%
Wealth management products	511.1	1.2%	1,115.1	3.2%	1,019.5	3.1%	506.7	1.6%
Funds	2,687.3	6.5%	769.7	2.2%	699.9	2.1%	710.1	2.2%
Other investments[1]	456.0	1.1%	5,948.5	17.3%	6,821.6	20.9%	8,347.3	26.4%
Total	**41,456.8**	**100.0%**	**34,427.7**	**100.0%**	**32,709.9**	**100.0%**	**31,627.3**	**100.0%**

Note:

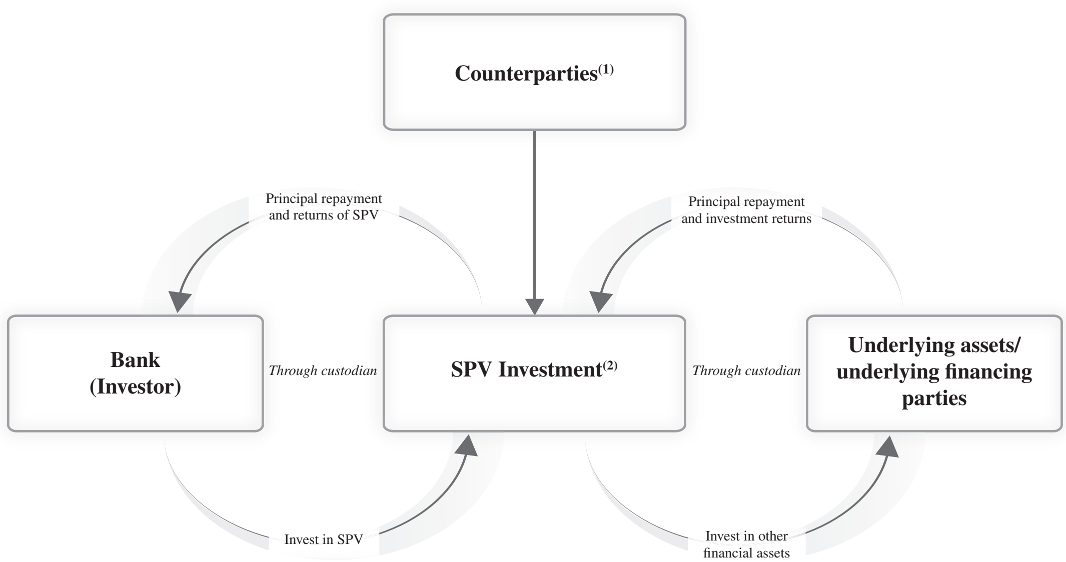
(1) Consist primarily of debt financing plan and asset-backed securities.

We assess our SPV Investment regularly to determine whether there is any objective evidence for impairments, and, if so, the amount of impairment losses. During the Track Record Period, as far as we are aware, all the counterparties for our SPV Investment were licensed to conduct their business under applicable laws and regulations.

For details of our SPV Investment, please see "Assets and Liabilities — Assets — Financial Investments". For details on risks arising from our SPV Investment, please see "Risk Factors — Risks Relating to Our Business — We are subject to risks relating to SPV Investments and any adverse development in relation to underlying assets of our SPV Investments may materially and adversely affect our profitability and liquidity".

Our SPV Investment is conducted mainly through trust plans, asset management plans, wealth management products and investment funds, debt financing plans and asset-backed securities. Counterparties are obliged to manage our funds according to pre-determined terms including investment period, underlying assets and performance benchmarks.

The following chart illustrates the relationship among the parties involved in our SPV Investment.



Notes:

(1) Counterparties including trust companies, securities companies, assets management companies, fund management companies, insurance companies and commercial banks (including their subsidiaries).

(2) SPV Investment mainly including trust plans, asset management plans, wealth management products and investment funds.

Our SPV Investment was classified in accordance with the applicable accounting rules, into financial investments measured at fair value through profit or loss, available-for-sale financial assets and investments classified as receivables prior to January 1, 2018, and financial investments measured at fair value through other comprehensive income, financial investments measured at fair value through profit or loss or financial assets measured at amortized cost after January 1, 2018. For details on the classification of our financial assets, please see "Assets and Liabilities — Assets — Financial Investments — Classification of Financial Investments by Business Model and Cashflow Characteristics".

Wealth Management

During the Track Record Period, we offered both principal protected and non-principal protected wealth management products to our customers. We also set different maturity terms and expected rates of return for different tranches of wealth management products, in order to capture a broader range of customers with different wealth management needs and risk tolerance levels. To improve the accessibility of relevant products, we deliver our wealth management products through a variety of channels, primarily including our counters, mobile banking APP and online banking. In addition, we are committed to reinforcing our service team to better meet our customers' differentiated needs and provide professional advisory services.

In recent years, PRC regulatory authorities, including the CBIRC, have promulgated various rules and regulations to strengthen the supervision and administration of wealth management businesses of commercial banks as well as prohibiting the issuance of new principal-protected wealth management products after a grace period ending on December 31, 2020. As of the Latest Practicable Date, all of the wealth management products we issued were non-principal protected. For details on the relevant rules and regulations, please see "Supervision and Regulations". Please also see "Risk Factors — Risks Relating to Our Business — We face risks and uncertainties associated with the PRC regulations governing the wealth management business of financial institutions" for the relevant risks associated with wealth management business.

In response to these regulatory requirements, we took active measures to reduce the offering of the restricted products, while exploring a steady transition into NAV-measured wealth management categories ("淨值類理財業務模式"). NAV-measured wealth management products are akin to open-end funds that are bought and sold on demand at their net asset value. Net asset value are calculated daily at the end of the working day using the amortized costs method. NAV-measured wealth management products are non-principal protected. Investors cannot predict the actual rate of return of the product. Instead, NAV-measured wealth management products regularly announce the net asset value and investors are permitted to redeem any day within the redemption period specified in the product manual with reference to the net asset value previously announced. All profits and losses are borne by the investors. Therefore, depending on the prices investors redeem his/her investment, NAV-measured wealth management products are with floating yields. As part of our risk management policy and to mitigate the risk of concentrated redemptions by investors, we reserve the right to refuse redemption by any investor if the net redemption units at any given day (i.e. the difference between the total amount of units redeemed and the total amount of units subscripted for the product) is greater than 10% of the total units of the products on the previous day.

We started to introduced cash management NAV-measured wealth management products ("現金管理類淨值理財產品") targeting individuals, where the customers entrust their assets to us based on investment plans we had proposed in light of their risk appetite. By signing up for these investment plans, our customers agree to bear the investment risks thereof while we leverage our expertise to maximize returns on their accounts.

During the Track Record Period, our corporate and personal wealth management products were mainly non-principal protected products with floating yields. For details on our corporate and personal wealth management products, please see the subsection headed "— Corporate Banking — Other Fee- and Commission-Based Corporate Banking Products and Services — Corporate Wealth Management Services".

The table below sets forth a breakdown of the volume of wealth management products we issued by principal protected and non-principal protected products during the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019 (unaudited)		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)									
Principal protected products	1,741.5	4.8%	539.6	0.9%	—	—	—	—	—	—
Non-principal protected products	34,662.2	95.2%	59,637.9	99.1%	72,653.9	100.0%	13,522.1	100.0%	19,618.3	100.0%
Total	**36,403.7**	**100.0%**	**60,177.5**	**100.0%**	**72,653.9**	**100.0%**	**13,522.1**	**100.0%**	**19,618.3**	**100.0%**

For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, wealth management products we issued amounted to RMB36,403.7 million, RMB60,177.5 million, RMB72,653.9 million, RMB13,522.1 million and RMB19,618.3 million, respectively. As of March 31, 2020, we had 63,816 personal wealth management customers. The following table sets forth a breakdown, by size of each tranche, of the cumulative total amount of the wealth management products we issued during the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019 (unaudited)		2020	
	Number of tranches issued	Amount of proceeds	Number of tranches issued	Amount of proceeds	Number of tranches issued	Amount of proceeds	Number of tranches issued	Amount of proceeds	Number of tranches issued	Amount of proceeds
	(in millions of RMB, except for number of tranches issued)									
Up to RMB50 million	152	4,472.7	46	1,641.2	26	864.0	5	139.7	8	249.3
Over RMB50 million to RMB100 million	118	8,939.4	61	4,705.6	44	3,895.1	8	761.2	4	327.6
Over RMB100 million	113	22,991.6	158	53,830.7	134	67,894.8	29	12,621.2	40	19,041.4
Total	**383**	**36,403.7**	**265**	**60,177.5**	**204**	**72,653.9**	**42**	**13,522.1**	**52**	**19,618.3**

In compliance with the CBIRC's requirements, we manage all our wealth management products independently through separate accounts and bookkeeping, with each of our wealth management products earmarked for our underlying investment. Please also see "Supervision and Regulation" for details on the latest regulations governing wealth management products.

Pursuant to the *Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks* (《商業銀行理財業務監督管理辦法》) (CBIRC Order 2018 No. 6) issued by the CBIRC on September 26, 2018, we classify our wealth management products into five categories based on their risk levels: Level 1 refers to low risk; Level 2 refers to low-medium risk; Level 3 refers to medium risk; Level 4 refers to medium-high risk and Level 5 refers to high risk. The following table sets forth breakdown of the wealth management products we issued by risk level during the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019 (unaudited)		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)									
Risk Level										
Level 1	1,741.5	4.8%	539.6	0.9%	—	—	—	—	—	—
Level 2	34,022.2	93.4%	59,057.9	98.1%	72,653.9	100.0%	13,522.1	100.0%	19,618.3	100.0%
Level 3	640.0	1.8%	580.0	1.0%	—	—	—	—	—	—
Total	**36,403.7**	**100.0%**	**60,177.5**	**100.0%**	**72,653.9**	**100.0%**	**13,522.1**	**100.0%**	**19,618.3**	**100.0%**

We invest the proceeds raised from our wealth management products mainly in debt securities, which accounted for 97.2%, 89.0%, 93.6% and 95.1% of the balance of our wealth management products as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively.

During the Track Record Period, the non-principal protected wealth management products offered by us were not consolidated in our financial statements. However, the principal-protected wealth management products issued by us were consolidated in our financial statements, and the funds received from these products and the investment made with such funds had been recognized as our financial liabilities (e.g. deposits from customers) and financial assets (e.g. financial investments), respectively. For more details on relevant accounting treatments, please see Note 19 to the Accountants' Report in Appendix I.

Bill Discounting and Rediscounting

We engage in interbank discounts of commercial bills with other qualified financial institutions or rediscounts of commercial bills with the PBoC, to generate working capital and income from interest spreads. We offer interbank discount services such as bills buy-out, bills sell-out, bills held under resale agreements and under repurchase agreements. We rediscount bills in accordance with the regulations of the PBoC.

PRICING

In determining the price of our products and services, we consider various factors, including but not limited to cost of funds, management costs, risk exposure, taxes and expected yield. For each loan application, we consider each borrower's market reputation and status, financial status, collateral secured by the loan, interbank market interest rates and credit history of each borrower. We also evaluate the overall market conditions as well as prices of similar products and services offered by our competitors. Our pricing policies are formulated and determined by our Financial Planning Department at our headquarters. Our Credit Review and Approval Department and other business departments determine specific prices for our products and services through the procedures and rules set out in our Product and Services Pricing Management Procedure for Weihai City Commercial Bank (《威海市商業銀行產品服務定價管理程序》). As of the Latest Practicable Date, we mainly refer to the loan prime rate (the "**LPR**") for the issuance of new loans as well as use the LPR as the pricing benchmark in our loan products.

Loans

The PBoC regulates the pricing for certain commercial banking products and services such as our RMB-denominated loans. On July 20, 2013, the PBoC removed the interest rate floor on loans from financial institutions and allowed financial institutions to set interest rates based on commercial considerations.

Depending on the type of loan products we offer to our customers, we determine the prices for these loan products based on a number of factors such as the loan applicants' industry status, financial condition and credit rating, the nature and value of the collateral, current interbank market interest rates, cost of funds, taxes, management expenses, expected returns, and other factors.

Deposits

Since October 24, 2015, the PBoC has removed the interest rates cap on RMB-denominated deposits for financial institutions including commercial banks. We may therefore offer our key corporate banking customers negotiated interest rates for their deposits based on the PBoC prescribed rates as we deem appropriate. The PBoC has also liberalized interest rates on interbank placings, and we determine such rates based primarily on our assets and liabilities management policies and the market interest rate. Our audit department at our headquarters is responsible for the review and monitoring of our deposit pricing policies.

Fee- and Commission-Based Products and Services

With respect to fee- and commission-based products and services, we price our services pursuant to government guidance prices and the market conditions. Products and services involving the implementation of government guidance prices include basic RMB settlement business specified by the CBIRC and the NDRC. We adjust the prices of fee- and commission-based products and services based on factors such as the constantly changing market conditions, costs of providing the products and services, and prices of similar products and services offered by our competitors. Please see "Supervision and Regulation — Pricing of Products and Services" for more details.

MARKETING

We have adopted a customer-oriented approach in operating our business and providing our customers with multi-level and comprehensive banking services. Our headquarters takes the initiative in formulating bank-wide business plans and marketing strategies, whereas each branch and sub-branch carries out implementation plans in their respective regions. Branches and sub-branches generally conduct marketing activities in their respective regions and collect valuable information and feedback from customers.

We strive to establish and maintain long-term and comprehensive strategic cooperative relationships with core corporate customers. We attach high importance to develop and maintain relationships with our key customers. The establishment of interaction marketing management mechanism, the list-based customer management mechanism and headquarters-to-headquarters platform at our headquarters has fully guaranteed our financial support ability to serve high-end strategic customers. We also pay close attention to the development of economic policy in Shandong Province and the PRC and adjust our marketing strategies accordingly to achieve better efficiency. Since September 2012, we have adopted a CRM system through which we can integrate customer information and business data from a variety of perspectives and maximize customer value. In addition, for important marketing events with strategic importance, we generally rely our headquarters to make the overall plan and take the lead to organize the relevant branches and sub-branches for the implementation.

DISTRIBUTION NETWORK

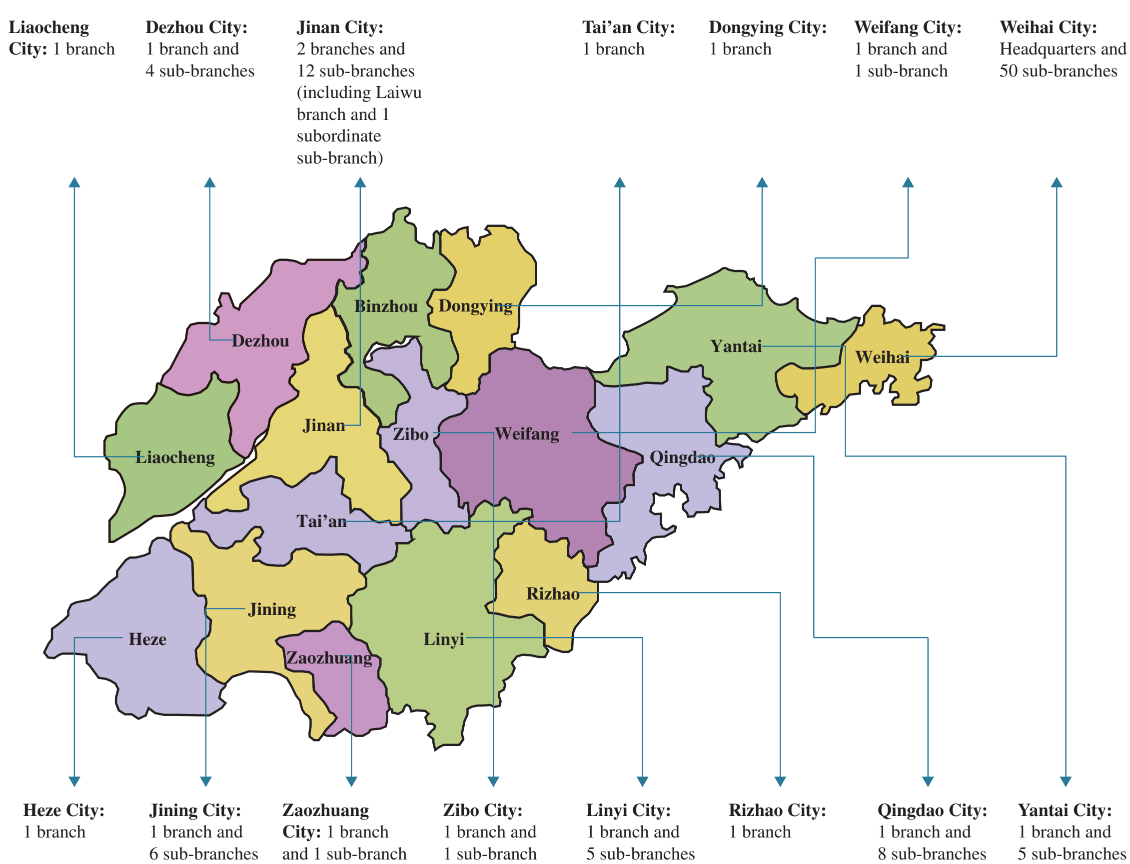
We provide banking products and services through our extensive distribution channels, consisting of a branch network, self-service banking facilities, and electronic banking channels. We see our physical branches and sub-branches as the cornerstone of our steady growth. At the same time, we invest in the continuous upgrade and expansion of our self-service banking facilities and electronic banking channels. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, transactions processed through our electronic channels accounted for approximately 82.0%, 86.9%, 90.0%, 87.2% and 90.7%, respectively, of our total amount of transactions for the same periods.

Branch Network and Self-service Banking Facilities

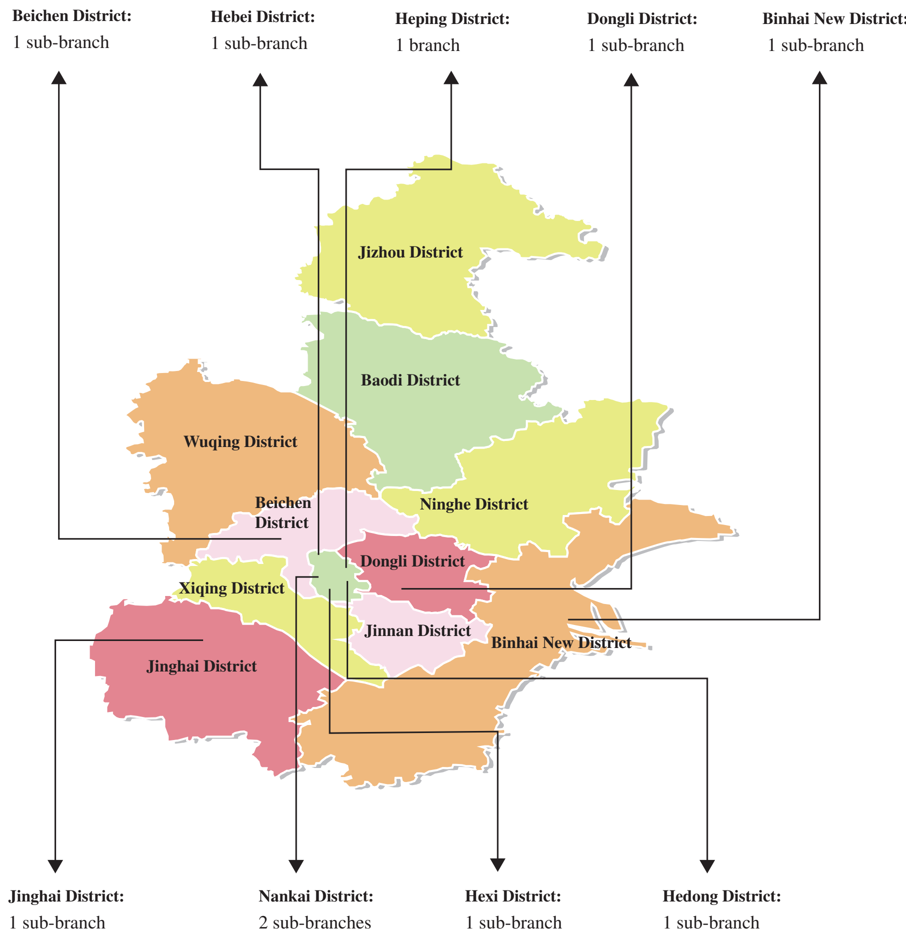
Our extensive branch network enables us to effectively deliver our products and services and penetrate into local markets. As of March 31, 2020, we had one headquarters, 16 branches, 102 sub-branches (including 73 city-level sub-branches and 29 county-level sub-branches) and one specialized institution (Small Enterprises Financial Service Center). In total, we had 119 outlets and one specialized institution.

The following maps show the distribution of our outlets as of March 31, 2020 in Shandong Province and in Tianjin Municipality.

<u>**Shandong Province:**</u>



Tianjin Municipality:



The following table sets forth the number of our outlets as of the dates indicated.

	As of March 31,	
	2020	
	Number	% of total
Shandong Province		
Weihai City	51	42.9%
Jinan City	14	11.8%
Qingdao City	9	7.6%
Yantai City	6	5.0%
Dezhou City	5	4.2%
Linyi City	6	5.0%
Jining City	7	5.9%
Weifang City	2	1.7%
Dongying City	1	0.8%
Zibo City	2	1.7%
Liaocheng City	1	0.8%
Zaozhuang City	2	1.7%
Tai'An City	1	0.8%
Heze City	1	0.8%
Rizhao City	1	0.8%
Subtotal	**109**	**91.6%**
Outside Shandong Province		
Tianjin Municipality	10	8.4%
Subtotal	**10**	**8.4%**
Total	**119**	**100.0%**

We rely on our extensive branch network in developing our brand and providing quality services to our customers. We have continuously set up new branches and sub-branches to cover new areas and relocated our existing outlets, so that we could optimize our distribution network coverage, streamline business structure and expand our customer base by improving our penetration in existing regions while expanding our reach in new areas. During the Track Record Period, we set up 14 new branches and sub-branches (including six sub-branches at the county level), and relocated five outlets. In the future, we plan on further expanding our network at the county level, in line with the government's policy of building an inclusive financial system for a broader community.

As of March 31, 2020, we had a total of 252 self-service banking facilities located in our outlets, and 15 stand-alone self-service centers.

Electronic Banking Channels

We began offering electronic banking services to supplement our branch network and self-service banking facilities, when we initiated our telephone banking services. Currently, our electronic channels provide comprehensive financial services through platforms including online banking, mobile banking, direct banking, and telephone banking.

Online Banking

Our online banking platform, accessible via our website www.whccb.com, offers a broad range of financial products and services to both corporate banking and retail banking customers. For corporate banking customers, we provide various services, primarily including account inquiry and management, payment and settlement, payroll services, and money transfer and remittance. For our retail banking customers, we primarily offer account inquiry and management, money transfer and remittances, wealth management products, bill payment and personal loans.

As of March 31, 2020, we had a total of approximately 398,467 online banking customers who have entered into the service agreements with us, including approximately 43,273 corporate banking customers and approximately 355,194 retail banking customers. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, an aggregate transaction volume of RMB440.5 billion, RMB574.1 billion, RMB558.0 billion, RMB117.4 billion and RMB123.5 billion was processed through our online banking platform, respectively.

Mobile Banking

We began offering our mobile banking services through our client end in 2014. A variety of services are offered through our mobile banking app, including account inquiry and management, money transfer, wealth management products and bill payment. To better secure mobile banking transactions, we provide our customers with a short message services (SMS) notification service, whereby we send them SMS notifications relating to bank account transactions, account safety verification, and risk alerts.

As of March 31, 2020, we had approximately 1.1 million mobile banking users. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, an aggregate transaction volume of RMB52,564.7 million, RMB98,836.8 million, RMB123,802.1 million, RMB28,235.5 million and RMB18,819.3 million, respectively, were processed through our mobile banking platform, respectively.

In addition, we opened our official WeChat account in 2014, which has become an important hub for our communications with the customers. By following this account, our customers can enjoy a variety of services, including checking bank account information, access to wealth management products, application for personal loans, and management of credit card accounts. As of March 31, 2020, our official WeChat account had 223,096 subscribers.

Direct Banking

We commenced direct banking business in September 2016 and have invested in the continuous technology upgrade and service improvement of this operation. In managing this business, we have successfully established a multi-functional online platform where customers may conveniently purchase a broad range of financial products and services, including investment and financing products. In selecting and promoting financial products and services to be listed on direct banking channels, we focus on those with innovative functions and specifications tailored to different target customer groups, in order to improve brand awareness of our direct banking services and enhance our competitiveness.

Capitalizing on our long-term relationship with third-party IT service providers, we have also made our direct banking services a convenient gateway for customers to access day-to-day services, such as online account opening, purchase of funds, etc. These services helped us capture potential financial needs of customers in their daily life and improved the attraction and free-flow of our direct banking channel. As of March 31, 2020, our direct banking business had approximately 134,513 customers.

Telephone Banking

As part of our electronic banking channel, we offer telephone banking services to both retail banking and corporate banking customers, including automated voice services and teller-operated services through our 24-hour nationwide customer service hotlines "96636" and "4000096636". Our telephone banking services include account inquiries and management, assistance with certain transactions, business inquiries, and emergency reporting on lost and stolen cards.

Self-service Banking

Our self-service banking facilities include ATMs, self-service deposit and withdrawal machines, smart teller machines, Smart Terminals ("智能終端"), Smart Self-Service Receipt Machines ("智能回單機") and automatic inquiry machines. These machines provide customers with convenient banking services while allowing us to reduce operating costs. Services provided through these facilities include balance inquiry, cash deposit and withdrawal, fund transfer, and payment of public utility bills. As of December 31, 2017, 2018, 2019 and March 31, 2020, we had a total of 265, 261, 267 and 267 self-service banking facilities, respectively.

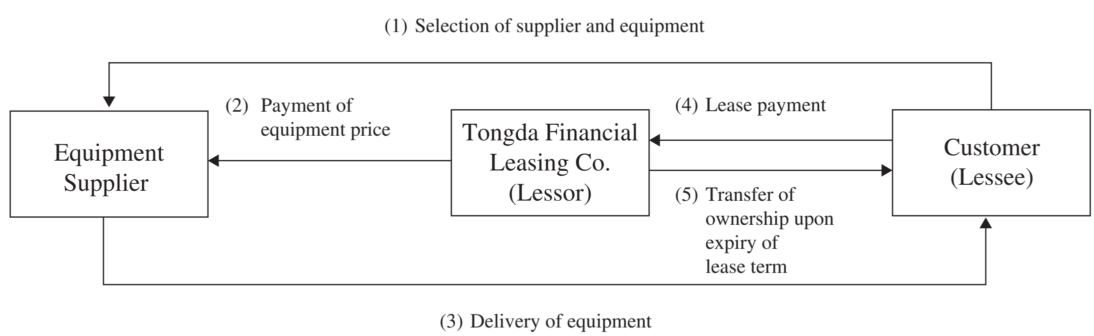
In addition, we actively upgrade and use innovative applied technology on our self-service banking facilities in order to provide better services and experiences to our customers. For instance, we had rolled out facial recognition systems on ATMs and Smart Counters.

FINANCIAL LEASING COMPANY

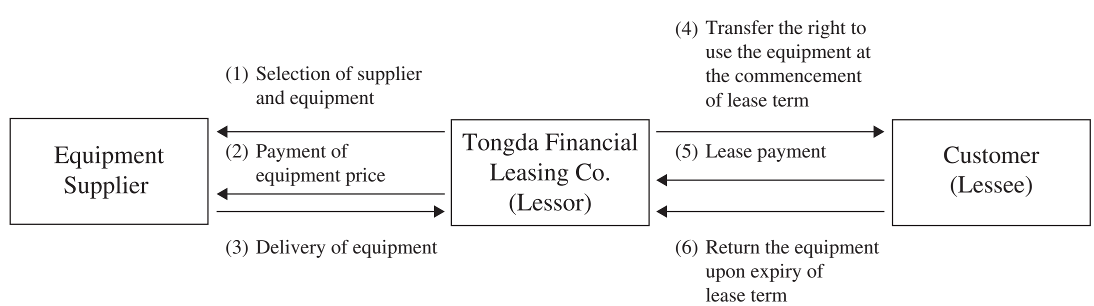
As part of our strategy to expand our business operation in Shandong Province and broaden our services, we established Tongda Financial Leasing Co. in June 2016. As of the Latest Practicable Date, we held a 59.09% equity interest of Tongda Financial Leasing Co. Tongda Financial Leasing Co. mainly provides financial leasing solutions to our customers. Our financial leasing solutions primarily take the form of direct lease and sale-and-leaseback. Please see below for a detailed explanation of our financial leasing solutions:

- **Direct lease**

In a direct lease transaction, we purchase an asset from an equipment supplier and then lease it to a customer for use in return for periodic lease payments. A typical direct leasing transaction is a tri-party arrangement that involves a lessor, a lessee and an equipment supplier. The following diagrams illustrate the relationship among the three parties in a typical direct lease transaction:

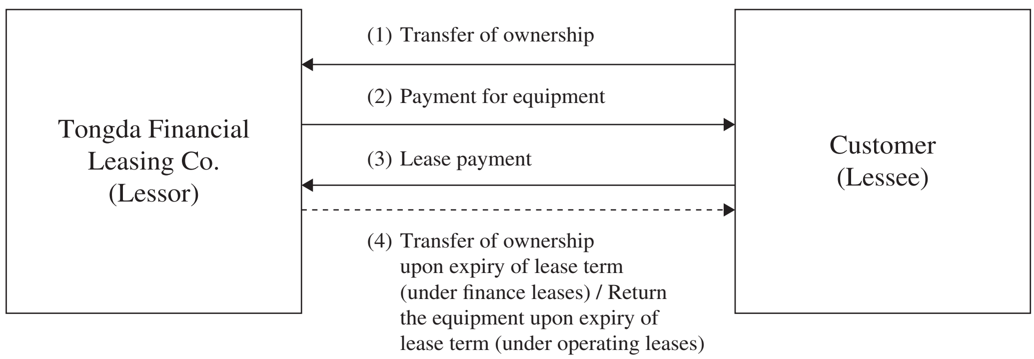


A slight variation of a typical direct lease transaction is as follow:



• **Sale-and-leaseback**

In a sale-and-leaseback transaction, our customer sells the relevant asset to us for a negotiated purchase price and we then lease the asset back to our customer in return for periodic lease payments, so that our customer may cover its funding needs and continue to use the asset as a lessee. A typical sale-and-leaseback transaction involves a lessor and a lessee. The following diagram illustrates the relationship between the two parties:



In addition to traditional financial leasing solutions, we also provide other services such as operating lease, investment in fixed income securities, interbank lending, sale and disposal of lease property.

We offer our financing leasing solutions and other services to a broad range of industries nationwide such as transportation and logistic, infrastructure, energy conservation and environmental protection, culture and tourism education and medical and health care industries. The assets involved from these industries usually are fixed assets such as pipeline networks, heating pipeline network, sewage network, commercial vehicles, roads, production facilities, manufacturing equipment, etc. We primarily focus in six major regions in the PRC, i.e. Beijing-Tianjin-Hebei, Bohai Rim, Yangtze River Delta, Greater Bay Area, Sichuan-Chongqing and Fujian-Jiangxi. Our management of Tongda Financial Leasing Co. is largely in line with our approach to expand our financial leasing market in Shandong Province. We believe our financial leasing business benefits from its synergies with our strong corporate banking business and could promote cross-selling opportunities within our Group. We could in turn further enhance our leading market positions and improve our customer loyalty by offering a more comprehensive set of financial products and services.

For each of the direct lease and sale-and-leaseback requests from our customers, we will consider the lesser's business size and nature, type of industry it operates, its credit history and credit indicators, asset-liability ratio and cash flow indicator. In determining the pricing of products and services, we will consider a number of factors, including but not limited to lesser's industry, type of business guarantee provided, our internal capital cost and other relevant cost. We also assess the overall market conditions and prices of similar products and services provided by competitors. The pricing policy of Tongda Financial Leasing Co. is formulated and determined by our Finance Department and Risk Management Department. Business Department and Risk Management Department of Tongda Financing Leasing Co. determine the specific prices of products and services through the procedures and rules stipulated in our Shandong Tongda Financial Leasing Co., Ltd. Financial Leasing Business Pricing Management Measures (山東通達金融租賃有限公司融資租賃業務定價管理辦法).

According to relevant PRC laws and regulations, we conduct regular review on key regulatory risk indicators on group-wide basis, including the results, capital sufficiency and risk exposure of Tongda Financial Leasing Co. We are also entitled to make decisions on the aspects relating to key regulatory risk indicators by exercising shareholders' rights. For details, please see "Risk Management — Risk Management in relation to Tongda Financial Leasing Co.".

During the Track Record Period, Tongda Financial Leasing Co. successfully capitalized on the growth of our customers and experienced steady growth in our business operations. Our total revenue from Tongda Financial Leasing Co. increased from RMB513.1 million in 2017 to RMB1,023.1 million in 2019, representing a CAGR of 41.2%. Our total revenue from Tongda Financial Leasing Co. amounted to RMB293.7 million for the three months ended March 31, 2020. The NPL ratios of Tongda Financial Leasing Co. remained at a relatively low level i.e. nil, nil, 0.94% and 0.83% as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively, which we believe this reflect the efficacy of risk management of Tongda Financial Leasing Co.. For the year ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, Tongda Financial Leasing Co.'s net revenue amounted to RMB251.8 million, RMB369.4 million, RMB522.7 million, RMB101.6 million and RMB158.9 million, respectively, and net revenue between the year 2017 to 2019 representing a CAGR of 44.1%. Tongda Financial Leasing Co.'s revenue accounted for 6.4%, 9.6%, 10.6%, 8.8% and 10.9% of our consolidated operating income during the same period, respectively. For the same period, Tongda Financial Leasing Co.'s net profit amounted to RMB102.3 million, RMB151.1 million, RMB239.8 million, RMB57.6 million and RMB87.1 million, respectively, and net profit between the year 2017 and 2019 representing a CAGR of 53.1%. The increase in the scale of Tongda Financial Leasing Co.'s net profit during the Track Record Period as compared to it's revenue was primarily because the continued decrease in the borrowing costs during the Track Record Period. Tongda Financial Leasing Co.'s net profit accounted for 6.4%, 14.9%, 15.7%, 15.3% and 22.2% of our consolidated net profit during the same period, respectively. The Tongda Financial Leasing Co.'s net interest margin amounted to 1.77%, 1.81%, 2.83%, 2.35% and 2.95% for the year ended December 31, 2017, 2018 and 2019 and for the three months ended March 31, 2019 and 2020. The continued increased in the net interest margin was primarily because (i) during the first few years since our establishment of Tongda Financial Leasing Co., in June 2016, we offered more competitive interest rates as compared to our peers in order to expand our market share and attract new customers. As we became more established in the market, we are able to optimize our product offerings and achieved higher return; and (ii) Tongda Financial Leasing Co.'s average cost of interest-bearing liabilities continued to decrease during the Track Record Period mainly as a result of the continued decrease in the average borrowing costs during the Track Record Period.

As of March 31, 2020, the balance of leased assets of customers was RMB15,337.3 million and 71 corporate customers recorded a balance of leased assets of RMB100.0 million or above, representing 54.6% of the total number of customers of Tongda Financial Leasing Co.. As of the same date, the balance of assets for each leasing project amounted to RMB112.8 million on average, and the weighted average unexpired lease term is 2.8 years.

INFORMATION TECHNOLOGY

Overview

We have established a resilient, agile and secure information technology infrastructure covering key functions of our operation, including business innovation, transaction processing, customer services, risk management and financial management. We have invested and will continue to invest in the development, maintenance and upgrade of our information technology systems.

Information Technology Management and Team

As of March 31, 2020, our information technology team, comprising information technology professionals and experts, had 84 employees in total. We have a sound organizational structure and management system for information technology related work, through which we provide strong support on all key stages of our business development, including risk management, data security, system development and testing, and business continuity.

Information Technology System

We engage reputable third-party service providers who work closely with our in-house experts in developing and upgrading our information technology system. We believe that, through engaging third-party vendors with rich industry experience, we can leverage their advanced and mature technology to improve the reliability and efficiency of our system, reducing our staff costs and business handling time while providing a superior customer experience. We have built a comprehensive outsourcing management system which allows us to monitor, supervise and control the quality of third-party services throughout the process. We adopt strict standards in selecting our suppliers and conduct comprehensive evaluations based on various factors, including their professional capacity, product maturity, scale of operation, experience and service quality, to ensure that we only engage industry-leading products and technologies.

Our Information Technology Department takes charge of the management of our technology infrastructure, application system and information security. Our Information Technology Department is responsible for formulating and implementing strategic plans in relation to information technology as well as reviewing and approving key information technology projects.

We adopted various advanced technical means to enhance the security of our information technology systems and business operations, and established a same-city backup center and an offsite backup center for disaster recovery which, together with our main data center, constitute the “two locations, three centers” disaster recovery system, to ensure business continuity in the event of major disruption or failure of our main data center.

Due to the nature of our business, our business is dependent on processing a high volume of complex transactions across numerous and diverse products and services accurately and efficiently. We also depends on information technology system to maintain our reputation for quickly and seamlessly processing customer requests, including account openings, payments and transfers. Although most of our business operation are conducted through our headquarters, branches and sub-branches, and unlike other internet-based financial services providers, Fintech-based financial service providers and Online Banks, where predominantly all of their products and services were conducted through internet by employing various digital and information technology means (for instance, some of these financial services provider used block-chain technologies etc.), thus exposing them to greater information technology related risks, such as network breakdowns, software bugs, computer virus attacks, intrusion attacks or providers’ failure to provide ongoing maintenance. We also face similar risks to a certain extent despite we rely less on information technology as compared to those internet-based service providers, Fintech-based financial service providers and Online Banks. As part of our risk management and in order to deal with or mitigate any potential weakness in our information technology systems, we actively and periodically upgrades our existing information technology systems as well as our measures against cybercrimes. We have established Information Technology Committee and Information Technology Department at our headquarters which is responsible for managing and monitoring our information technology risk.

For instance, we have established a complete organizational structure for information security which covers the security management of our staff, terminals, system construction, system operation and maintenance. To ensure the security of information technology, we have hired professionals to oversee our information security system and established a series of information security management measures to prevent any unauthorized online intrusion, attack, data leakage or third-party tampering on our information system. We also maintain security of our information system through various technologies such as encryption, anti-virus software and firewalls and we continuously update such technologies to enhance our information security. In addition, we have established a standardized information security risk monitoring and assessment mechanism, which requires us to carry out periodic internal and external information security risk assessments and enables us to deal with any red flag issues promptly. We also carry out comprehensive internal audits over our information technology risk management at least once every three years to safeguard the implementation of our various risk management measures effectively. The audit covers information technology governance, information technology risk management, security management and operation and maintenance. For details regarding our information technology risk management, please see “Risk Management — Information Technology Risk Management”. While we have disaster recovery and business continuity contingency plans in place, any incident resulting in interruptions, delays, the loss or corruption of data or the cessation of systems can still occur.

Please see "Risk Factors — Risk Relating to Our Business — The effective operation of our business is highly dependent on the proper functioning and improvement of our information technology system. Any security breaches and attacks against our systems and network, and any potentially resulting breach or failure to otherwise protect personal, confidential and proprietary information, could damage our reputation and negatively impact our business, as well as materially and adversely affect our financial condition and results of operations" for details of the relevant risks.

PERSONAL DATA AND PRIVACY PROTECTION

We collect certain personal data from our customers in connection with our business and operations. Depending on the types of products and services our customers choose, and with their consent, we may collect the following categories of personal data during the course of our business: (i) basic personal and contact information (such as name, birthday, gender, mobile phone number, e-mail address and delivery address); (ii) social activities (such as current employer, job title and educational background); and (iii) financial information (such as proof of income, credit rating report and other documents furnished during pre-loan investigation). Our customers' personal data is stored at our own facilities. Personal data we collect is stored for a period a minimum period of five years, depending on the nature of the business or transaction for which the data is obtained, in accordance with our internal policy and guidelines. To minimize the risk of data loss or leakage, we also conduct regular data backup and data recovery tests, and encrypt user data in network transmission.

We have established a strict bank-wide policy on data collection and processing and have implemented a series of internal control measures to preserve personal information and protect customer privacy. Our Information Technology Department sets out key principles and policies governing the collection, storage, transmission, and protection of personal data. Employees who have access to our customers' database are required to sign an undertaking. Furthermore, our employees are required to go through the following procedures when processing personal data: (i) providing adequate notice to customers as to why and how their data is being collected and used, (ii) making reasonable efforts to prevent loss or leakage of any personal data, including implementing a strict authorization procedure before granting an employee or department's request for access to personal data, so as to ensure only valid and legitimate requests are executed, and (iii) adhering to the scope and purposes for the authorized use of personal data throughout the handling process. Upon detecting any breach of our data privacy and protection policy, we subject the relevant employees to strict disciplinary actions and, depending on the severity of the incident, make prompt reports to the PBoC in accordance with the relevant laws and regulations.

Furthermore, our employees are required to go through certain procedures when processing personal data and in their day to day operation. They are required to make reasonable efforts to prevent loss or leakage of any personal data. We, as the owner of the personal data we collect from our customers, do not distribute or sell our customers' personal data to other companies for advertising or other purposes without their permission. The secure transmission of confidential information over the internet and the security of our systems are essential in maintaining our banking customers' confidence and ensuring compliance with relevant data privacy legislation. If we fail to transmit customer information and payment details online securely, or otherwise fail to protect customer privacy, or if third parties obtain and/or reveal our confidential information, we may lose customers and potential customers may be deterred from using our products and services, which could expose us to liability and could have a material adverse effect on our business, financial condition and results of operations. Please see "Risk Factors — Risk Relating to Our Business — Failure to ensure and protect the personal data of our customers or to comply with data privacy and protection laws and regulations could harm our reputation and deter customers from using our services, which could materially affect our results of operations" for details of the relevant risks.

COMPETITION

The banking industry in the PRC has become increasingly competitive. We primarily compete with other commercial banks in Shandong Province. Please see "Industry Overview — PRC Banking Industry". We also face competition from other banking institutions. The principal competitive factors in the banking industry include capital strength, risk management, asset quality, reach of distribution network and customer base, brand recognition and scope, as well as quality and pricing of products and services.

The primary factors driving competition for deposits products are customer service, interest rates, fees charged, branch locations and hours, online and mobile banking functionality, and the range of products offered. The primary factors driving competition for loan products are customer service, range of products offered, price, reputation, and quality of execution. We believe that we are a strong player in our markets, although other competitors may have certain advantages over us. Among the advantages that many large institutions have are their abilities to finance extensive advertising campaigns, maintain extensive branch networks and make larger technology investments, and to offer services which we are not yet able to offer.

In response to the aforementioned competitive environment, we plan to expand our service network, further strengthen our influence in the relevant markets, innovate our products and services, and improve our information technology infrastructure so that we can stay competitive in the commercial banking industry.

EMPLOYEES

Attracting and retaining qualified employees is vital to our success. We offer competitive remuneration and are dedicated to talent cultivation and development. As of March 31, 2020, we had a total of 2,945 full-time employees, 2,693 based in Shandong Province and 252 based outside Shandong Province. The following table sets forth the number of our full-time employees by function as of March 31, 2020.

	As of March 31, 2020	
	Number of employees	% of total
Corporate banking	278	9.5%
Retail banking	732	24.9%
Financial markets	36	1.2%
Teller	747	25.4%
Finance and accounting	132	4.5%
Risk management, internal audit and legal and compliance	186	6.3%
Information technology	82	2.8%
Management	578	19.6%
General	101	3.4%
Tongda Financial Leasing Co.	51	1.7%
Others	22	0.7%
Total	**2,945**	**100.0%**

The following table sets forth the total number of our full-time employees by age as of March 31, 2020.

	As of March 31, 2020	
	Number of employees	% of total
Aged 30 or below	1,015	34.4%
Aged 31-35	969	32.9%
Aged 36-40	402	13.7%
Aged 41-45	205	7.0%
Aged 46-50	267	9.0%
Aged over 50	87	3.0%
Total	**2,945**	**100.0%**

The following table sets forth the total number of our full-time employees by education level as of March 31, 2020.

	As of March 31, 2020	
	Number of employees	% of total
Master's degree and above	375	12.7%
Bachelor's degree	2,334	79.3%
College/Associate degree and below	236	8.0%
Total	**2,945**	**100.0%**

Believing that our sustainable growth relies on the capability and dedication of our employees, we have invested significant resources in talent development. We offer a variety of training programs tailored for our employees at different levels. We actively collaborate with prestigious university and industry associations in the PRC, so as to offer relevant courses on global and domestic economy, as well as leadership and management skills, to our senior and mid-level management team. For the executive personnel at our branches and sub-branches, we provide annual centralized training sessions themed in management capability upgrade, practical skills enhancement and team building from time to time.

We also take great pride in the various recognition and awards our employees have received in the banking industry. Since January 1, 2017, 141 employees have been awarded and received recognition in their ability and contribution in the banking industry.

In compliance with the PRC laws and regulations, we contribute to our employees' social security and other benefits program including pension, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing allowances and corporate annuity.

We have a labor union established in accordance with PRC laws and regulations, which represents the interests of our employees and works closely with our management on labor-related issues. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any strikes or other material labor disputes that affect our operations.

According to the Interim Provisions on Labor Dispatching (《勞務派遣暫行規定》) (the **"Interim Provisions"**) promulgated by the Ministry of Human Resources and Social Security of the PRC on January 24, 2014 and implemented on March 1, 2014, the number of dispatch workers used by an employer shall not exceed 10% of the total number of its employees. As of March 31, 2020, we had 52 dispatch workers. We did not sign any individual contracts with these dispatch workers but instead, we entered into labor dispatch agreements with the labor dispatch agencies. According to these relevant labor dispatch agreements, the labor dispatch agencies will be responsible for the dispatch workers' salaries and social insurance while we will be responsible for paying the fees to these labor dispatch agencies for the services that they have rendered.

We typically enter into two to three year agreements with labor dispatch companies regarding the services of the dispatch workers. The relevant agreements stipulate the service fees and scope of services of the labor dispatch companies. We must provide the dispatch workers with a safe work environment in accordance to the relevant agreements, and we reserve the rights to request for replacement of any dispatch workers that fail our required standards. Dispatch workers enter into labor contracts with the relevant labor dispatch companies. We do not enter into labor contracts with the dispatch workers. The labor dispatch companies are responsible for dealing with the relevant costs of the social insurance, housing funds or employee benefits relating to the dispatch employees. Although we are under no statutory obligation to directly make social insurance contributions in relation to the dispatch workers, we may be jointly liable for any claims brought by the dispatch workers if the labor dispatch companies fail to pay in full timely. However, we would be entitled to seek indemnification from the labor dispatch companies in such cases.

PROPERTIES

Our headquarters is located at Weihai City. As of the Latest Practicable Date, we owned or occupied 41 real properties with an aggregate GFA of approximately 65,849.7 square meters and leased 120 properties with an aggregate GFA of approximately 125,466.0 square meters.

Owned Properties

As of the Latest Practicable Date, we owned or occupied 41 properties with an aggregate GFA of approximately 65,849.7 square meters. Among these real properties:

1. For 39 properties with an aggregate GFA of approximately 65,333.4 square meters (accounting for 99.2% of the aggregate GFA of our owned properties), we had obtained the relevant building ownership certificates and the land use certificates, or the real property ownership certificates, for the land occupied by these properties through grant.

   As advised by our PRC Legal Advisors, 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, create a mortgage on or by other means dispose of such properties according to applicable laws.

2. For a property with an aggregate GFA of approximately 216.3 square meters (accounting for 0.3% of the aggregate GFA of our owned properties), we had obtained the building ownership certificate, but had not obtained the land use certificate, on which building was erected, due to the property is situated within the public road expansion project designated by the PRC Government and the competent authority no longer issues the land use right certificate. This property is currently being used as one sub-branch's outlet.

   As advised by our PRC Legal Advisors, as we have obtained the relevant building ownership certificate, there are no material legal obstacles for us to occupy or use such property. However, before obtaining the land use right certificates for the land on which such building were erected, we may be restricted from transferring, mortgaging or otherwise disposing of such property. In addition, there were no controversial or disputes over the ownership of this property and there were no request or notice from the competent authorities or any third party requesting us to stop occupying or using this property, or challenging our legal right to this property. In any event, if we have to relocate due to the certificate issues of the land, we believe we are able to find comparable property as alternatives in corresponding areas, and such relocation will not have material adverse effects on our financial condition or results of operations.

3. For a property with a GFA of approximately 300.0 square meters (accounting for approximately 0.5% of the aggregate GFA of our owned real properties), we were yet to obtain the relevant building ownership certificate or land use right certificate for this property due to historical reasons. This property is currently being used as one sub-branch's outlet.

As advised by our PRC Legal Advisors, there were no controversial or disputes over the ownership of this property and there were no request or notice from the competent authorities or any third party requesting us to stop occupying or using this property, or challenging our legal right to this property. In any event, if we have to relocate due to the certificate issues of the land, we believe we are able to find comparable property as alternatives in corresponding areas, and such relocation will not have material adverse effects on our financial condition or results of operations.

During the Track Record Period and as of the Latest Practicable Date, the defective titles of the above-mentioned two properties did not have any material adverse effect on our business operations. The title defects were primarily due to historical issues and reasons beyond our control. Our Directors are of the view that such defective properties will not, individually or in aggregate, have any material adverse effect on our business. If necessary, we believe that we will be able to find comparable properties as alternatives at a relatively low cost, and such relocation will not have any material adverse effect on our financial condition or results of operations.

Leased Properties

As of the Latest Practicable Date, we leased 120 properties with an aggregate GFA of approximately 125,466.0 square meters. Among these 120 properties, we have signed 117 leases with lessors, the remaining three are still pending further negotiation with the lessors as to the terms of the new lease and renewal lease. Among these 120 properties:

1. For 93 properties with an aggregate GFA of approximately 97,017.2 square meters (accounting for approximately 77.3% of the aggregate GFA of our leased properties), the lessors had provided the relevant building ownership certificates or supporting documents from the owners of such properties consenting or authorizing the lessors to sublease the properties.

   As advised by our PRC Legal Advisors, these leases are legal and valid.

2. For 27 properties with an aggregate GFA of approximately 28,448.8 square meters (accounting for approximately 22.7% of the aggregate GFA of our leased properties) (For the three months ended March 31, 2020, the revenue and net interest income generated from these 27 properties accounted for 2.06% and 3.20%, respectively, of our total revenue and net interest income), the lessors (the "**Remaining Lessors**") had not provided the relevant building ownership certificates or supporting documents from the owners of such properties consenting or authorizing the Remaining Lessors to sublease the properties. Among these 27 properties, 24 of these properties with an aggregate GFA of approximately 29,502.7 square meters (accounting for approximately 23.5% of the aggregate GFA of our leased properties), lessors (the "**Undertake Lessors**") had either undertake in the relevant lease agreements, or had issued written undertakings stating, that the Undertake Lessors shall indemnify us if we suffer any losses from the defective titles of such properties.

As part of the rectification measures, we have actively communicated with the Remaining Lessors and urged them to obtain the relevant building ownership certificates and relevant written consent to lease such properties to us on a timely basis. We are unable to estimate the required timeframe for them to obtain such certificates or consents as this is subject to the efficiency of Remaining Lessors and owners to these lease properties.

As advised by our PRC Legal Advisors, if any third party raises claims against the ownership or leasing rights of these properties, our leasing of such properties may be affected. However, as advised by our PRC Legal Advisors, we are not subject to any penalty or fines due to the lack of the building ownership certificates from the Remaining Lessors or the relevant written consents from the building owners to these leased properties and the lack of such certificates or consents will not materially or adversely affect our business operations. If we are unable to continue to use these properties due to their defective titles, we believe we can find comparable properties as alternatives at relatively low costs, and such relocation will not have a material adverse effect on our financial condition or results of operations.

As of the Latest Practicable Date, for our 120 leased properties, we had registered 45 leasing agreements with the relevant housing administrative authorities with an aggregate GFA of approximately 52,135.0 square meters (accounting for approximately 41.6% of the aggregate GFA of our leased real properties). As advised by our PRC Legal Advisors, pursuant to relevant judicial interpretation of the Supreme People's Court of the PRC, failure to complete lease registration and filing procedures would not affect the legal validity of the relevant lease agreements. However, according to the Administrative Measures for Commercial Housing Leases (《商品房屋租賃管理辦法》), the housing administrative authorities may require the parties to the lease agreements to complete lease registration within a prescribed period of time and the failure to do so may subject the parties to the lease agreements to fines from RMB1,000 to RMB10,000. During the Track Record Period, we had not received any administrative penalties for failure to register our leases. We believe the failure to complete lease registration will not have a material adverse effect on our financial condition or results of operations.

Property Valuation

As of March 31, 2020, we had no single property with a carrying amount of 15.0% or more of our total assets, and on this basis, we are not required by section 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempt from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

PERMITS, LICENSES AND QUALIFICATIONS

As of the Latest Practicable Date, we had obtained all material licenses, approvals, permits and qualifications from relevant PRC authorities for our operations in the PRC.

INTELLECTUAL PROPERTY RIGHTS

We conduct business under the brand name of "Weihai City Commercial Bank" and the logo of and some other brand names and logos. Our intellectual property rights mainly include trademarks and Internet domain names. As of the Latest Practicable Date, we held 4 registered trademarks and 2 domain names in the PRC. With respect to details of our intellectual property rights, please see "Appendix VIII — Statutory and General Information". We have not been subject to any material infringement of our intellectual property rights or allegations of infringements by third parties during the Track Record Period that would have a material adverse effect on our business, asset quality, financial condition and results of operations.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

Legal Proceedings

We are involved in various claims and lawsuits in the ordinary course of our business from time to time. As of the Latest Practicable Date, we were the plaintiffs in 26 pending litigations (the "**26 Pending Cases**"), each with a dispute amount of RMB30.0 million or above, and the aggregate dispute amount of the claimed principal in such legal proceedings was approximately RMB1,661.4 million. Among these 26 Pending Cases, 25 involved enforcement claims which we initiated to recover payments on our loans and one involved contract dispute with third parties, including (i) four cases with a dispute amount of principal ranging from RMB100.0 million to RMB200.0 million; (ii) eight cases with a dispute amount of principal ranging from RMB50.0 million to RMB100.0 million; and (iii) 14 cases each with a dispute amount of principal below RMB50.0 million. As of the Latest Practicable Date, among these 26 Pending Cases, 13 were pending for judgment by court of first instance and 13 were pending for enforcement and/or in enforcement pursuant to judgment in our favor. None of our Directors or senior management was involved in these litigations.

We believe that we have made adequate provisions for the loans in our pending legal proceedings where we were the claimant or applicant, in compliance with our loan provision policies, after taking into account relevant factors including the recoverability of loans. For details of our post-disbursement management and inspection towards our loans, please see "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans" and "Risk Management — Credit Risk Management — Credit Risk Management for Personal Loans".

As of the Latest Practicable Date, we were not involved, as the defendant, in any legal proceeding, litigation or arbitration with a claim amount of principal exceeding RMB10.0 million.

Our PRC Legal Advisors are of the view that, as the total amount in dispute for these 26 Pending Cases, in which we were plaintiffs, accounts for a small percentage of our total assets as of March 31, 2020. In addition, as we are the plaintiffs, these cases have no material impediment on our operations. Based on the above, our Directors are of the view that these litigations will not have any material adverse effect on our business, financial condition, results of operations or prospects.

As of the Latest Practicable Date, we did not expect any of the current or pending legal or arbitration proceedings to have, individually or in the aggregate, a material adverse effect on our business, financial condition and results of operations. Also see "Risk Factors — Risks Relating to Our Business — We may be involved in legal and other disputes from time to time arising out of our business operations".

Regulatory Inspections and Proceedings

We are subject to various regulatory requirements and guidelines promulgated by different PRC regulatory authorities, such as the CBIRC, PBoC, NAO, SAT, SAMR, NDRC, SAFE and their respective local branches and offices. Inspections and examinations are carried out by such regulatory authorities regarding our compliance with the legal and regulatory requirements in relation to our business operations, risk management and internal control.

These inspections and reviews have not identified any major risk or non-compliance events in us but located some deficiencies in our business operations, risk management and internal control, the details of which are set out below. Although these issues have not had any material adverse impact on our business, financial position or results of operations, we have taken improvement and remedial measures to prevent the occurrence of similar incidents in the future.

Save as disclosed and separately discussed under "— Legal and Administrative Proceedings — Regulatory Inspections and Proceedings", "— Legal and Administrative Proceedings — Compliance with Core Indicators" and "— Legal and Administrative Proceedings — Anti-money Laundering", we have been in compliance with relevant regulatory requirements and guidelines relating to our business operations, risk management, tax compliance and internal controls in all material respects and there have been no other regulatory inspections or proceedings that may cause material and adverse impact on our business operations or financial results during the Track Record Period and up to the Latest Practicable Date.

In March 2020, we obtained a regulatory opinion from our supervising authority, CBIRC Shandong Office ("**CBIRC Shandong Opinion**"), stating that there are no material impediments on the Listing, based on (i) as of December 31, 2019, we had complied with regulatory requirements as to regulatory indicators, including those in relation to capital adequacy, liquidity, assets quality, NPL, profit and loan concentration; (ii) as of December 31, 2019, we had established and continuously improved our internal control system and mechanism; (iii) as of December 31, 2019, we had established and optimized our corporate governance policies, guidelines and procedures; (iv) for the past three years, we were not subject to any material administrative penalties imposed by banking regulatory authorities. Based on the above, our Directors are of the view that, as of the Latest Practicable Date, we had established a comprehensive internal control and risk management system, which is sufficient and effective in all material respects.

Administrative Penalties

During the Track Record Period and up to the Latest Practicable Date, we were subjected to a total of 15 administrative penalties (the "**Historical Administrative Penalties**") (with aggregated fines of approximately RMB1.6 million) arising from routine and *ad hoc* inspections carried out by the PRC regulatory authorities and none of our Directors or senior managements were involved in any of these Historical Administrative Penalties. Details of these Historical Administrative Penalties are set out below:

1. CBIRC's local offices imposed four administrative penalties (with an aggregated fine of approximately RMB0.9 million) and these relating to deposit classification; failure to comply with regulations regarding working capital loans; post-disbursement management; and pre-loan investigation. For details of the regulatory examinations carried out by the CBIRC which led to the abovementioned fines, please see "— Legal and Administrative Proceedings — Regulatory Inspections and Proceedings — Findings of Regulatory Examinations — CBIRC";

2. PBoC's local offices imposed six administrative penalties (with an aggregated fine of approximately RMB0.7 million) and these relating to customer data protection; anti-money laundering laws; customer's risk level and credit rating review and adjustment; and failure to comply with national treasury relevant procedure. For details of the regulatory examinations carried out by the PBoC which led to the abovementioned fines, please see "— Legal and Administrative Proceedings — Regulatory Inspections and Proceedings — Findings of Regulatory Examinations — PBoC"; and

3. The remaining five administrative penalties were imposed by SAT's local offices against the branches relating to tax related incidents (with an aggregated fine of approximately RMB450.0).

We had paid all fines in full as of Latest Practicable Date. Our PRC Legal Advisors are of the view that, based on the CBIRC Shandong Opinion which confirmed that our Bank was not subject to any material administrative penalties imposed by any banking regulatory authorities for the past three years, our PRC Legal Advisors confirmed that these historical administrative penalties during the Track Record Period and up to the Latest Practicable Date will not have any material adverse effect on our business operation and will not hinder our future application for approvals, licenses or filings that are necessary for our business operations. Please refer to the CBIRC Shandong Opinion mentioned in the preceding subsection for details.

We have engaged an independent internal control advisor to review our internal control over financial reporting as well as to report factual findings on the above incidents of administrative penalties. Based on the remedial measures and enhanced internal control measures we have adopted in view of the findings and recommendations from the internal control advisor, we have made improvements in matters relating to our business operation, internal control and risk management. Taking into account the remedial measures and enhanced internal control measures we have adopted, and no further comment from the internal control advisor on the follow-up visits and follow-up procedures, our Directors consider that our internal control measures currently in place are adequate and effective in all material respects.

Findings of Regulatory Examinations

Routine and *ad hoc* inspections carried out by the PRC regulatory authorities have identified certain deficiencies in relation to our business operations, risk management, corporate governance and internal controls, the details of which are set forth below. Following their inspections, the relevant regulatory authority typically issues an inspection report along with a request for timely rectification of the non-compliance issues identified and in some instances, relevant PRC regulatory authorities may issue administrative penalty. For details of our administrative penalties during the Track Record Period and up to the Latest Practicable Date, please see the preceding sub-section. We have taken appropriate measures to remedy the identified deficiencies without material delay, and submitted remedial reports to relevant regulatory authorities. During the Track Record Period and up to the Latest Practicable Date, the relevant regulatory authorities had not raised any material objection to the remedial measures set out in our remedial reports and adopted by us.

Unlike administrative penalties, inspection reports do not impose penalties such as fines or suspension of business licenses. We believe that the findings and recommendations summarized below have no material adverse impact on our business, financial condition or results of operations, but instead have enabled us to better diagnose the deficiencies in our operations and to improve our risk management and internal control measures accordingly.

CBIRC

The relevant local offices of the CBIRC, or its predecessor, the CBRC, conduct regular and *ad hoc* inspections on our operating conditions. Based on these inspections, the relevant local offices of the CBIRC issue inspection reports that contain inspection results and guiding opinions. The major issues raised by the relevant CBIRC's local offices and our corresponding remedial measures during the Track Record Period and up to the Latest Practicable Date are set forth below:

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
Credit risk management		
Credit risk management to be improved, particularly on customer concentrations as one branch was found to have relatively high loan exposure to LGFVs.	We enhanced our internal guidelines to control concentration risk, including diversifying our portfolio through enhancing credit support to micro and small enterprises. We also increased the guarantee for the loan extended to LGFVs in accordance with the relevant national policy.	December 27, 2018
Inadequate credit risk management associated with failure to timely adjust loan classification and accurately record deposit categorization, and to promptly address noticeable growth of NPLs.	We enhanced our credit risk management by closely monitoring the quality of our assets, and adopting more stringent measures on loan classification, credit review and approval standards to improve loan portfolio quality as well as recovery and collection of non-performing loans. We also arranged additional trainings for relevant employees to strengthen their capabilities on conducting comprehensive inspections and recoveries of non-performing loans.	March 7, 2020
Failed to conduct sufficient pre-loan investigation, including (i) failure to strictly follow the required procedures to verify the authenticity of trade background and underlying documents, (ii) failure to conduct comprehensive review on ultimate borrowers; and (iii) inadequate investigation on certain guarantors.	We enhanced the review on credit applications, strengthened our unified credit extension management and reinforced its strict implementation, enhanced our accountability mechanism to hold each account manager to high due-diligence standards, supplemented the supporting documents previously omitted from the record, and intensified our screening of guarantors to reduce potential credit risks.	April 22, 2019
Post-disbursement management to be enhanced, including (i) failure to strictly follow the required procedures to conduct periodic inspections on the borrowers' latest financial status (including pledges and collateral) to monitor credit risks in a timely manner; and (ii) lack of supervision over use of proceeds to ensure that the funds disbursed are utilized for the designated purposes.	We strengthened implementation of internal policies and procedures in relation to post-disbursement management, enhanced customer risk monitoring, risk alert signal monitoring and supervision over use of proceeds. We also enhanced relevant trainings for our employees in relation to post-disbursement management.	December 12, 2018
Risk management over off-balance sheet business subject to improvement, so as to address the noticeable increase of certain off-balance sheet assets and to ensure they are in strict compliance with the regulatory requirements.	We strictly monitored and controlled credit risks arising from our off-balance sheet business, carried out comprehensive check and assessment on the risk status of various assets, optimized its business structures, reinforced our internal rules in relation to background investigations, enhanced employee trainings and strengthened internal control to ensure strict compliance with the relevant regulatory requirements.	March 7, 2020

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
Operational risk management		
Failure to fully comply with the government's macroeconomic guidelines and credit management policies, such as improper extension of credits to certain real estate developers, and insufficient credit support to agriculture industry projects.	We refined our internal guidelines governing credit extension to real estate development projects in line with the government's policy and enhanced our credit support to agriculture industry projects.	February 19, 2020
Inadequate staff management mechanism, including inconsistent enforcement of the staff rotation and mandatory leave system and failure to fully comply with regulations and internal policies governing employee compensation and deferred payments.	We enhanced the internal rules in relation to the prevention of non-compliance incidents, strengthened our employees' expertise through trainings and disciplinary measures, strictly implemented rotation of positions and mandatory leaves and ensure regulatory opinions and recommendations were promptly addressed.	January 23, 2019
Inadequate prevention mechanism for non-compliance incidents, including failure to fully comply with regulations and internal policies in relation to outlets security and ATM, inadequate fees management such as improperly charging clients with fees that should be borne by the Bank, and untimely or incomplete rectification of certain non-compliant incidents.	We strengthened our employee training and disciplinary measures, strictly implemented our internal policies and procedures in compliance with the relevant rules, and enhanced our monitoring over employees. We also accelerated our compliance efforts and internal penalties to ensure that regulatory opinions and recommendations were promptly followed.	July 24, 2018
Liquidity risk management		
Failure to strictly and properly prevent high deposit ratio during a certain period for certain branches.	We enhanced our capacity to mitigate liquidity risks, including keeping our deposit deviation under control, and closely monitored key indicators in relation to our liquidity status. We also arranged additional training to raise our employees' liquidity risk management awareness.	February 19, 2020
Information technology risk management		
Information technology risk management system subject to improvement to ensure sufficient policy, technical and management measures in relation to information technology security.	We improved the information technology management system by strictly following the required security policy and device parameters and we strengthened our employee training and disciplinary measures.	August 31, 2017
Interbank business		
Internal policies and risk management measures relating to interbank business subject to improvement, such as failure to (i) strictly implement internal review and inspection procedures while conducting certain transactions; and (ii) record certain accounting terms in a consistent manner.	We enhanced our interbank credit risk management by extending our loan business management guidelines to the interbank business. We also strengthened our compliance review over interbank credit approval, commenced post-investment inspections on the underlying assets and strengthened internal and external trainings and business learning as well as prevented the occurrence of related non-compliance incidents. In addition, we strictly followed the regulatory requirements to avoid such inconsistency in accounting terms.	November 27, 2017

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
Bank bills business		
Inadequate formulation and implementation of internal procedures, including failure to verify authenticity of source of guarantees, trade background, and to properly demand, examine, and record underlying documents.	We reinforced the internal procedures applicable to the bills business, such as establishing a centralized system of credit approval, verification and record-keeping, and strictly enforced employees' training and our disciplinary measures to address employee's misconduct.	November 27, 2017
Wealth management business		
Incomplete internal control mechanism, such as inadequate or inaccurate product description in marketing materials, and failure to strictly follow standardized marketing procedures.	We improved the management of the wealth management business by adopting a series of actions. We enhanced our wealth management policies and reinforced its implementation. We also optimize the wealth product portfolio.	March 7, 2020
Corporate governance and internal control		
Corporate governance and internal control measures subject to improvement, such as (i) one of our management members failed to devote sufficient time to the daily corporate management; and (ii) compensation system to be improved.	We adopted a series of measures to enhance our corporate governance and internal control, including (i) we ensured all our senior management members to perform their duties prudently; and (ii) we improved our internal compensation indicators system.	January 26, 2018

During the Track Record Period, we submitted remedial reports in relation to the implementation of regulatory recommendations included in the inspection reports issued by the local offices of the CBIRC and its branches. As of Latest Practicable Date, we had not received any objections from the relevant branch of CBIRC in respect of our implementation of their recommendation and we have not received any request from the CBIRC requesting us to adopt further remedial measures. Pursuant to the inspection reports issued by the relevant local offices of the CBIRC, we believe that there are no material deficiencies in our business operations, corporate governance, internal controls or risk management which may result in material and adverse impact on our business, financial condition or results of operations.

PBoC

The relevant local branches of PBoC conduct routine and *ad hoc* inspections on our operation. Based on these inspections, the relevant local branches of PBoC issue inspection reports that include inspection results and guiding opinions.

The major issues and guiding opinions raised by the relevant local branches of PBoC in their reports to us and our major remedial measures during the Track Record Period and up to the Latest Practicable Date are set forth below:

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
Inadequate internal control on strict implementation of material events reporting procedures and making timely reports to supervisory authorities according to regulatory requirements.	We arranged trainings for employees to enhance their awareness and understanding of the relevant reporting requirements, clearly defined the duties and responsibilities of the relevant departments with accountability system.	January 28, 2019
Inadequate credit risk and operational risk management in certain areas such as customers' credit rating, customer identification, retaining customers' identification documents and customer data protection.	We strengthened the training and inspections on our staff in customer identification and improved their understanding of the classification system, promptly ceased the non-compliant transactions identified, and refined our internal policies governing the interbank business. We also timely enhanced the internal rules and procedures in relation to customers' credit information protection.	May 24, 2019
Information technology risk management system subject to improvement to ensure sufficient security policy, technical and management measures and effective implementation of technical and management measures.	We improved the information technology risk management system by strictly followed the required security policy and device parameters and established technical and management measures in accessing information technology security.	December 8, 2017
Insufficient management on national treasury business to ensure timely turning of relevant funds into national treasure.	We formulated the relevant guidelines and took immediate measures to resolve the system failure and ensure it is functioning properly in turning funds into national treasure in an accurate and timely manner.	November 26, 2018
Certain anti-money laundering internal control measures, client identification mechanism and identification and report of doubtful transactions subject to improvement.	We enhanced our internal control on anti-money laundering by our headquarters taking charge in our bank-wide anti-money laundering system, and enhancing the implementation of rules and mechanisms governing customer identification and record keeping. We also strengthened our internal trainings and education in relation to anti-money laundering, intensified the anti-money laundering inspection, specified the procedures on customer identification, improved the quality of large and doubtful transaction reports, as well as strengthened the internal supervision mechanism on anti-money laundering and other aspects.	November 26, 2019
Inadequate implementation of internal procedures in relation to credit management to ensure proper examination and record of underlying documents, such as customer identification.	We enhanced credit monitoring and management, including strengthening the verification of the authenticity of trade background and underlying documents, and reinforced the strict implementation of our internal procedures. We also enhanced our trainings in relation to internal control, such as verification of documents and proper record-keeping to ensure our internal procedures are strictly followed.	December 16, 2018

We submitted remedial reports with respect to our adoption of regulatory recommendations included in the inspection reports issued by the relevant local branches of PBoC. As of the Latest Practicable Date, we had not received any objections from the relevant local branches of PBoC in respect of our implementation of their recommendations and we have not received any request from the PBoC requesting us to adopt further remedial measures. Based on the aforesaid inspection reports issued by the local branches of the PBoC, we believe that we do not have significant deficiencies in our business operations, internal audit or risk management which may result in material and adverse impact on our business, financial condition or results of operations.

Compliance with Core Indicators

We have complied with the relevant regulatory requirements and guidelines relating to business operations, risk management, tax compliance and internal control in all material respects. In particular, we are required to comply with the various ratios as required in the Core Indicators for Supervision of Risks of Commercial Banks (Provisional) (商業銀行風險監管核心指標(試行)) of the CBIRC (the"Core Indicators (Provisional)"). Please see "Supervision and Regulation — Loan Classification, Allowances and Write-Offs — Other Operational and Risk Management Ratios" for our compliance with the Core Indicators (Provisional) during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, no administrative penalties had been imposed on us due to non-compliance with the Core Indicators (Provisional) in regulatory checks and reviews.

Anti-money Laundering

No material abnormal money laundering incidents had been identified or reported to the senior management during the Track Record Period and up to the Latest Practicable Date. For details of our anti-money laundering measures, please see "Risk Management — Legal Risk Management — Anti-money Laundering".

Employee Non-compliance

During the Track Record Period and up to the Latest Practicable Date, we had not detected any misconduct and negligent acts committed by our employees. Nevertheless, our business is subject to inherent risks including fraud or other misconduct committed by our employees, customers or other third parties. We cannot assure you that our internal control policies and procedures are always sufficient to detect or prevent all incidents of fraud or misconduct involving our employees, customers or other third parties. Please see the section headed "Risk Factors — Risks Relating to Our Business — We may not be able to detect and prevent fraud or other misconduct committed by our employees or third parties, and we may be subject to other operational risks".

OVERVIEW

The primary risks in relation to our operations include credit risk, market risk, operational risk, liquidity risk, strategic risk, reputational risk, information technology risk and country risk. We have established a comprehensive risk management system and are dedicated to its continuous upgrade and optimization. For details about our risk management framework, please see "— Risk Management Framework".

Our Risk Management Objectives and Principles

The overall objective of our risk management is to establish and maintain a centralized and vertical risk management system in line with our development strategy of establishing an international first-class commercial bank, regulate the interactions among the front, middle and back-offices and further to form a comprehensive risk management system covering various risks as a commercial bank and promote the sustainable and healthy development of our business.

To achieve the above-mentioned objectives, we have implemented the following risk management principles.

- Comprehensive risk management ("全面風險管理原則"). We established and improved the risk management system covering all types of above-mentioned risks, each business line, every department, employees and internal procedures.

- Vertical management ("垂直化管理原則"). In order to maintain the relative independence of the risk management, we established a vertical organization structure of risk management, which clearly defines the roles and responsibilities of our different committees, departments and positions, and established an independent reporting line, which allows our Board of Directors, Board of Supervisors and senior management to directly control and monitor the independence and efficiency of our risk management.

- Professionalized management ("專業化管理原則"). We established a professional management model for each of our principal risks, refined the arrangement of risk management positions, and applied specialized risk measurement techniques and analysis tools to achieve elaborate risk management.

- Correlation between authority, responsibilities and rights ("權責利相匹配原則"). We established and improved a responsibility system where the responsibilities of the risk management personnel at all levels must be compatible with their respective rights and authorities.

- Linkage and checks and balances ("聯動與制衡性原則"). We optimized the business process in accordance with customers' orientation, established the parallel operation mechanism which integrates risk management into business operation, and regulated the overall linkage and effective balance among the front, middle and back-offices.

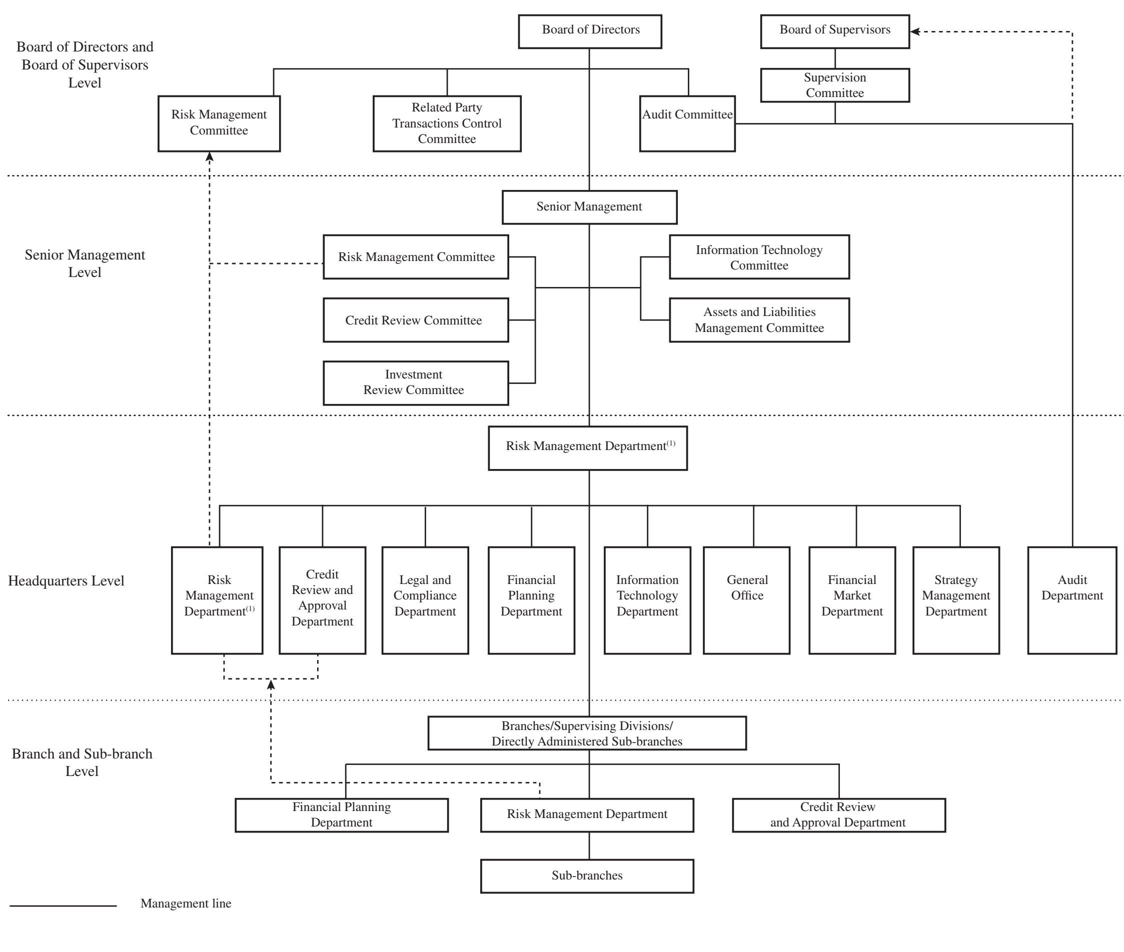
Risk Management Structures

Based on our risk management principles, we have established a sound risk management organizational structure, comprising (i) the Board of Directors and the Board of Supervisors; (ii) various special risk management committees at the Board level and the senior management level that take charge of the guidance, support and coordination of our risk management system; and (iii) various departments in our headquarters and branches that are in charge of daily risk management work. Capitalizing on our comprehensive risk management structure, we have been able to effectively manage key risks associated with our daily operations, primarily including credit risk, market risk, operational risk, liquidity risk, strategic risk, reputational risk and information technology risk.

RISK MANAGEMENT FRAMEWORK

We have established a comprehensive bank-wide risk management framework. Our tier-structural risk management system divides the risk management responsibilities by hierarchy and clearly defines the roles of each department, including the Board of Directors and its special committees, the Board of Supervisors, the senior management and its special committees, as well as various other departments carrying risk management responsibilities at our headquarters. We have established clear and specific reporting and communication procedures to ensure efficient and effective coordination among different departments in addressing various risks.

The following chart illustrates our organizational structure for risk management as of the Latest Practicable Date.



Note:

(1) The Risk Management Department takes the lead in the overall risk management and is primarily responsible for the management of credit risks, market risks and information technology risks.

Board of Directors and Its Special Committees

The Board of Directors assumes the ultimate responsibility for risk management and effectively identifying, measuring, monitoring and controlling various risks undertaken by our business lines. The Board of Directors' responsibilities include: (i) establishing risk culture and risk management strategies; (ii) determining the positioning of risk appetite, reviewing and approving the annual risk appetite strategies; (iii) formulating and approving significant risk management policy and procedures; (iv) monitoring comprehensive risk management status; and (v) reviewing and approving information disclosures of comprehensive risks.

Our Board of Directors performs its risk management duties through the Risk Management Committee, Related Party Transactions Control Committee and Audit Committee and with the support from management teams at our headquarters, branches and sub-branches.

Risk Management Committee

The Risk Management Committee is mainly responsible for (i) supervising the implementation of risk management by the senior management in terms of liquidity risk, credit risk, market risk, operational risk and technological risk; (ii) conducting periodic risk assessment; (iii) reviewing our internal policy and risk management measures; and (iv) evaluating our capital adequacy on a regular basis.

The Risk Management Committee currently consists of five members and is chaired by Mr. LI Hang (李航).

Related Party Transactions Control Committee

The Related Party Transactions Control Committee is mainly responsible for (i) formulating policies, systems and procedures in relation to related party transactions; (ii) identifying our related parties; (iii) reviewing major related party transactions and submitting to the Board of Directors for review and approval, in the event of the loan in large amount, and submitting to the Risk Management Committee for review prior to submitting to the Board of Directors; and (iv) periodically reporting to the Board of Directors and Board of Supervisors in relation to related parties and related party transactions.

The Related Party Transactions Control Committee currently consists of five members and is chaired by Mr. FAN Chi Chiu (范智超).

Audit Committee

The Audit Committee is mainly responsible for (i) formulating the internal audit system, the medium and long-term audit plan and annual audit work plan and submitting to the Board of Directors for review and approval; (ii) reviewing the performance of the chief audit officer and the head of the Audit Department, and making recommendations to the Board of Directors on their appointment and removal matters; (iii) reviewing the work report of our internal audit departments, as well as assessing and appraising their audit work; (iv) reviewing the implementation of internal audit work and reporting to the Board of Directors; and (v) evaluating and determining internal audit procedures in accordance with the authorization of the Board of Directors.

The Audit Committee currently consists of five members and is chaired by Mr. LU Qing (路清).

Board of Supervisors

Our Board of Supervisors' responsibilities mainly include supervising (i) the Board of Directors and our senior management's performance of risk management duties; (ii) our internal control and internal audit; and (iii) our financial activities, so as to ensure the strict compliance with the relevant laws, regulations and internal risk management policies.

Supervision Committee

The Supervision Committee is mainly responsible for (i) formulating supervision plans and conducting relevant inspections on our financial activities, business decisions, internal control and risk management; (ii) regularly reporting the supervision and inspection work to the Board of Supervisors; and (iii) supervising our loan concentration, asset-liability ratio, related party transactions and risk control matters and reporting to the Board of Supervisors.

The Supervision Committee currently consists of four members and is chaired by Ms. TENG Bo (滕波).

Senior Management and Its Special Committees

Our senior management team carries out its various duties under the leadership and supervision of the Board of Directors, and in compliance with the relevant laws, regulations and internal procedures. At the senior management level, our risk management system consists of the Risk Management Committee, the Credit Review Committee, the Information Technology Committee, the Assets and Liabilities Management Committee and the Investment Review Committee.

Risk Management Committee

The Risk Management Committee is mainly responsible for (i) reviewing our bank-wide risk management strategies, plans, policies and internal procedures related to the risk management system; (ii) reviewing the resolutions on the collection of non-performing assets which is beyond the authority of the business department, the disposal and replacement of loan assets and idle assets and bad debts identification; (iii) reviewing risk management reports submitted by various departments and branches and assisting the senior management in submitting the periodic risk management reports to the Board of Directors; and (iv) reviewing reports on handling our major issues in the overall risk management and compliance management.

The Risk Management Committee currently consists of 14 members and is chaired by Mr. ZHANG Renzhao (張仁釗).

Credit Review Committee

The Credit Review Committee is a decision-making body for tier-structural authorization, tier-structural management and collective approval under our credit approval system. The Credit Review Committee is mainly responsible for (i) reviewing and approving credit projects resulting in credit beyond the prescribed limit in accordance with the relevant internal policies and procedures of credit business authorization; and (ii) considering and reviewing material issues related to credit business and credit management.

The Credit Review Committee currently consists of seven members and is chaired by Mr. ZHANG Renzhao (張仁釗).

Information Technology Committee

The Information Technology Committee is mainly responsible for (i) identifying, monitoring and controlling risks arising from our information technology system; (ii) regularly reporting information technology strategy and implementation to the Board of Directors; (iii) establishing information technology management system including risk prevention and control; and (iv) reviewing information technology risk reports.

The Information Technology Committee currently consists of 13 members and is chaired by Mr. MENG Dongxiao (孟東曉).

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is mainly responsible for (i) reviewing the annual structural portfolio of our assets projects, debt projects and off-balance sheet projects, and adjusting the same to be consistent with the actual circumstances; (ii) timely identifying and researching on the material issues related to our assets and liabilities management; (iii) periodically evaluating and monitoring internal policies, procedures and methods of liquidity risk and interest risk management; and (iv) regularly reviewing bank-wide operation of assets and liabilities and guiding and supervising the assets and liabilities operations in business departments.

The Assets and Liabilities Management Committee currently consists of 14 members and is chaired by Mr. MENG Dongxiao (孟東曉).

Investment Review Committee

The Investment Review Committee is mainly responsible for (i) reviewing bank-wide investments that are beyond the authority of the business departments; and (ii) advising the authorized approvers on investment review.

The Investment Review Committee currently consists of seven members and is chaired by Mr. ZHANG Renzhao (張仁釗).

Departments Relating to Risk Management at Our Headquarters

Our headquarters oversees our major risk management activities and supervises risk management at our branches and sub-branches. We have established the following departments at our headquarters, each being responsible for managing risks in its respective area. The primary duties and responsibilities of these departments are set forth below.

Risk Management Department

Our Risk Management Department takes the lead in the bank-wide comprehensive risk management and management of credit risks, market risks and information technology risks, and also takes the lead in managing the bank-wide risks arising from new businesses and new products. Its responsibilities mainly include: (i) preparing comprehensive risk management policies and establishing comprehensive risk management system; (ii) taking the lead in formulating bank-wide risk appetites; (iii) organising the relevant departments to study, develop and maintain the tools and approaches for identifying, measuring, monitoring and controlling risks; (iv) studying and formulating the approaches and tools for credit risks and market risks stress tests, and organizing relevant stress tests; and (v) establishing a bank-wide internal system framework for capital adequacy assessment and organising internal capital adequacy assessments.

Credit Review and Approval Department

Our Credit Review Department is mainly responsible for (i) formulating bank-wide credit policies and guidelines and supervising their implementation; (ii) under the framework of credit policy, formulating the approval procedure for bank-wide credit business (including interbank business credit) and management measures and operational procedures of customer credit rating; (iii) monitoring key credit risk indicators such as loan concentration; and (iv) providing feedback to the Risk Management Department on the use of customer credit rating instruments and assisting in optimization and adjustment of credit rating instruments.

Legal and Compliance Department

The Legal and Compliance Department at our headquarters takes the lead in operational, legal and compliance risk management, as well as the anti-laundering work. Our Legal and Compliance Department is mainly responsible for (i) establishing and improving the bank-wide legal risk management system; (ii) reporting legal work and legal risk management to the senior management and the general counsel on a regular basis; (iii) taking the lead in anti-laundering work; (iv) assisting other departments in identifying, evaluating and controlling legal risks; (v) conducting legal review for our business operations; and (vi) cooperating in participating in our litigation, arbitration, mediation and hearing activities.

Financial Planning Department

Our Financial Planning Department is mainly responsible for managing our liquidity risks and interest rate risks, including (i) formulating liquidity risks and interest rate risks management strategies, policies and procedures; (ii) recognizing, measuring and monitoring liquidity risks and interest rate risks, including monitoring the status of current assets, supervising the compliance with liquidity risk limits and reporting over-limits in a timely manner, organizing liquidity risk stress tests, and testing and evaluating of liquidity risk contingency plans; (iii) periodically submitting liquidity risk reports to the senior management; (iv) formulating the disclosure method of liquidity risk information and submitting it to the senior management and the Board of Directors for review and approval; (v) formulating and monitoring the compliance with interest rate risk limit for relevant business departments and branches; and (vi) taking the initiative in the implementation of the interest rate risk stress test.

Information Technology Department

Our Information Technology Department is mainly responsible for (i) formulating various management policies and operation guidelines; (ii) formulating the bank-wide information security management and operation system to prevent and control computer risks; (iii) ensuring the safe and stable operation of business and management systems to avoid security accidents; (iv) formulating the information technology outsourcing management system and work process; and (v) organizing and coordinating the relevant departments and external resources to complete the development, design, testing and launch of various systems required for comprehensive risk management.

Financial Market Department

We established a Risk Management Center under our Financial Market Department which is mainly responsible for the risk management of our Financial Market Department, including (i) formulating detailed implementation guidelines for risk management of the Financial Market Department in accordance with the risk management policy and system at our headquarters; (ii) participating in formulating bank-wide credit policy and formulating or revising policies of the department; (iii) assessing market risk of new products developed by the Financial Market Department; and (iv) undertaking stress testing including formulating and updating testing plans.

Strategy Management Department

Our Strategy Management Department is mainly responsible for our strategic risk management, including (i) taking the lead in drafting and revising strategic plans; (ii) drafting strategic management policies, principles and management framework and submitting to the senior management and the Board of Directors for review; (iii) reviewing the management documents and information, identifying and assessing strategic risks as well as monitoring the strategic risk exposure; (iv) proposing solutions to the existing or potential strategic risks and taking the lead in implementing strategic risk governance; and (v) reporting strategic risk management to the Risk Management Department at our headquarters on a regular basis.

Audit Department

Our Audit Department is responsible for (i) formulating internal audit policies and internal audit systems; (ii) undertaking internal audits of the Bank's business and operations according to the Articles of Association and relevant rules, and supervising the rectification actions thereof; (iii) coordinating the internal and external audit; and (iv) overseeing the risk management and reporting to the Audit Committee on a regular basis.

General Office

Our General Office is mainly responsible for our reputational risk management, including (i) formulating the bank-wide reputational risk management and control related systems, documents and procedures; (ii) coordinating various departments at our headquarters and external regulatory departments in predicting potential reputational risks and formulating relevant reputational risk emergency plans; (iii) monitoring, managing and dealing with the bank-wide reputational risks and guiding the branches and sub-branches in dealing with negative public opinion; and (iv) coordinating various departments at our headquarters and external institutions to conduct reputational risk training and emergency drills.

Risk Management Framework at Our Branches and Sub-branches

Risk Management-related Departments at Our Branches and Sub-branches

The president of each branch oversees the risk management with support from the risk management department at the branch. The risk management department in our branches is responsible for the implementation of policies and procedures issued by the headquarters and submitting risk management reports to relevant departments at the headquarters in accordance with our internal procedures.

Dual Reporting Line System

We adopt a dual reporting line system at our branch level, where the risk management department at each branch reports directly to the Risk Management Department at our headquarters and makes simultaneous reports to the presidents of the respective branches. Meanwhile, presidents of the sub-branches are required to report to the presidents of the branches in charge. Upon the occurrences of significant risk incidents, the risk management departments at our branches report directly to the Risk Management Department at our headquarters and major credit risk events resulting in loss shall be reported to the Risk Management Committee.

Risk Monitoring and Alert

We closely monitor different types of risks to make timely responses accordingly, particularly for key risks associated with our daily operations such as credit risk, market risk, liquidity risk, operational risk, reputational risks, strategic risks, information technology risks and concentration risks.

- **Credit Risk**. We have established an effective credit risk management system, which covers the entire credit extension process, from application and pre-loan investigation to post-disbursement and post-loan monitoring. Through the risk measurement model, we identify and evaluate risk factors and their development trend and formulate proposals to mitigate the potential risks. We have a vertical credit review and approval system. Authorized approvals may approve the loan applications within their respective authority under the credit management system. In managing post-disbursement risks, we require our employees to conduct inspections on the borrowers especially his/her financial status or business operation status.

- **Market Risk**. We closely monitor fluctuations of interest rate, exchange rate and market price of securities and regularly conduct gap analysis, duration analysis, stress tests and scenario analysis in measuring and evaluating market risk in line with our prudent risk preferences. In addition, we implement strict limit management and set and update the limit on an annual basis. We introduced the Wind Information Financial Terminal System ("萬得資訊金融終端系統") for information collection and data analysis.

- **Operational Risk**. We continue to improve the operational risk management system, improve the management mechanism and conduct operational risk identification and evaluation. We require the relevant departments to make routine reports on a regular basis and immediate reports upon the occurrence of significant incidents. We closely monitor our key regulatory indicators and the latest development of laws and regulations, continuously evaluate the effectiveness of our internal rules and timely conduct compliance review for our new products. Meanwhile, we require that all departments and branches make routine reports in relation to their risk management status, and make timely emergency reports upon occurrence of material risk incidents.

- **Liquidity Risk**. Our Financial Planning Department monitors our liquidity position on a regular basis, maintains a liquidity monitoring system to calculate and analyze liquidity ratios, runs quarterly liquidity stress tests, and provides risk alerts and reminders in a timely manner. We also conduct periodic assessment and analysis on the liquidity risk limits and regulatory indicators, including the liquidity ratio and the liquidity coverage ratio. Additionally, we have established a liquidity risk emergency response mechanism and undertake periodic emergency drills. We also make timely reports on the liquidity risk monitoring to the Assets and Liabilities Management Committee.

- **Information Technology Risk**. We require our business departments to work with our Information Technology Department to identify, record and evaluate relevant risks and take proper mitigation measures accordingly. We also closely monitor key risk indicators and issue risk alerts at an early stage. We have established a comprehensive information technology risk management system covering each key aspect of our operations, including data security, system development, operation and maintenance, connection with external resources and real-time reporting and recording.

- **Reputational Risk**. We have established a "7 days x 24 hours" reputational risk monitoring mechanism, implemented the reputational risk system of "daily monitoring, daily reporting", and conducted scenario analysis on potential reputational risk events. We have established and continuously improved the reputational risk event response mechanism to ensure timely and effective reporting and response upon the occurrence of material and urgent incidents.

- **Strategic Risk.** We dynamically monitor the changes in external operation environment and our strategy implementation progress, identify strategic planning risks and strategic implementation risks carefully, conduct deep analysis on risk evaluation results, regularly report the status of strategic risk management and optimize and adjust the strategic planning in due time.

CREDIT RISK MANAGEMENT

Credit risk refers to the risk of loss that may arise from the default by, or downgrade of credit rating of, an obligor or counterparty, or from its reduced capacity of fulfilling its contractual obligations. We are exposed to credit risks primarily associated with our credit assets, credit guarantees, loan portfolio, financial market business and off-balance sheet credit businesses.

We have established and continually improve our credit risk management framework and system which cover the entire process of our credit business with established policies and procedures to identify, measure, monitor, mitigate, control and report on credit risks that arise from our credit extension business.

Credit Policy Guidelines

We are dedicated to striking a balance between achieving steady and sound loan growths and maintaining a prudent culture of risk management. We have prepared a detailed guidance on credit policy based on the provincial, national and international economic conditions, as well as the government policies and regulatory requirements. Our guidelines include overall credit policies and guidelines specific to key industries. These guidelines govern our credit extension in various aspects, including our preferences in relation to the type of industry, customer, and product within our portfolio. We also adjust our guidelines in a timely manner to respond to changes in government policies, economic environment and our own risk appetite.

Specifically, we established the differentiated credit policies, adjusted the structure of credit placement and established a long-term effective control mechanism. We provide stronger support to strategic emerging industries and green credit projects as well as industrial upgrading, technological transformation and energy conservation and environmental protection projects.

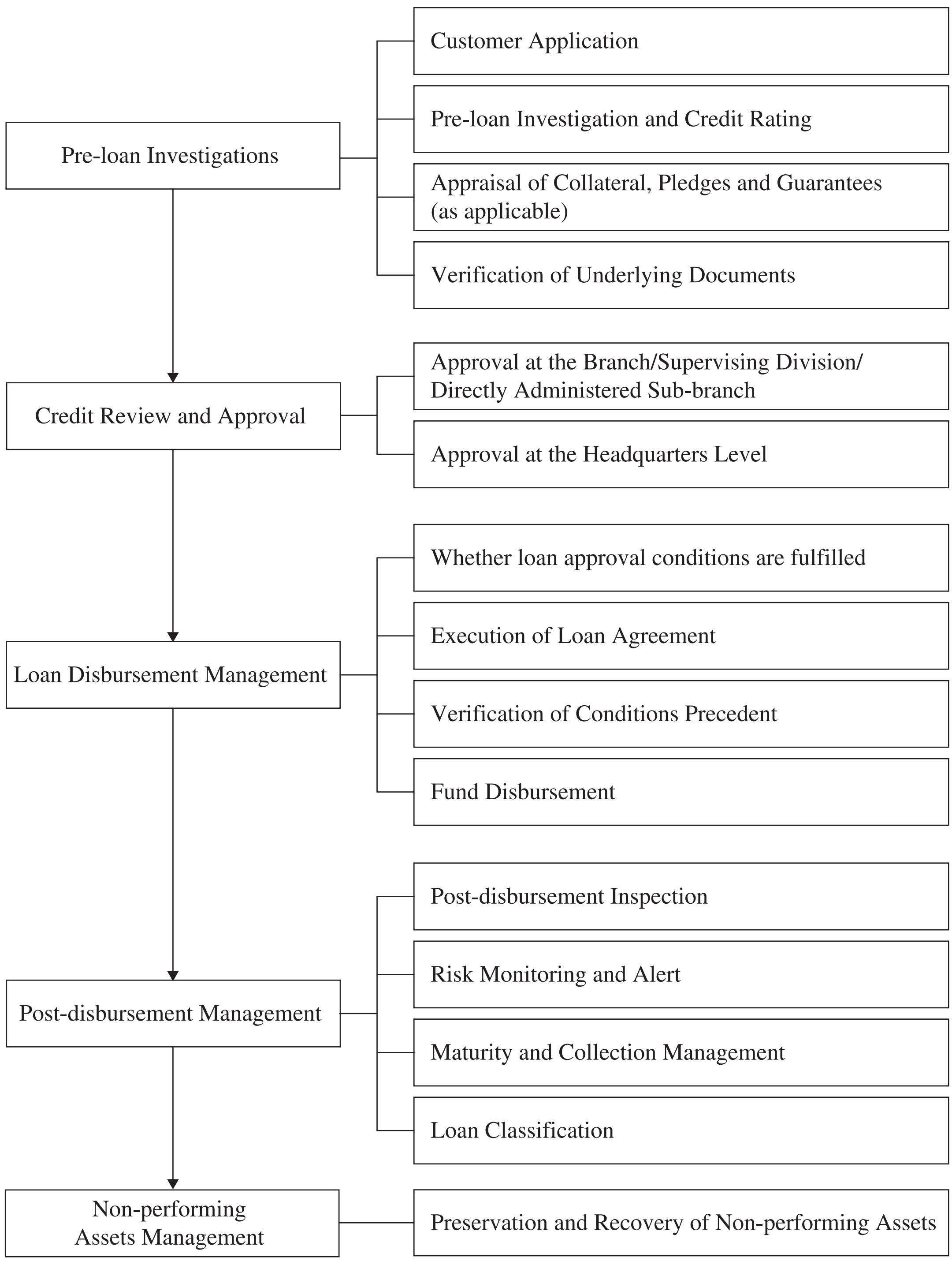
In formulating our credit policies, we research on the economic environment in Shandong Province and the PRC and analyze the risks and uncertainties that are relevant to our business operations. We also closely follow the updates in local and national economic development plans, financial related regulations and monetary policies and adjust our credit guidelines accordingly. For example, we formulated *Green Credit Management Measures of Weihai City Commercial Bank Co., Ltd.* (《威海市商業銀行綠色信貸管理辦法》) and prioritized extending our credit to the green credit focus project, such as wastewater treatment project. We also enhance credit support to micro and small enterprises and basic services industries in response to relevant macroeconomic policies. For instance, we have launched various credit products for micro and small enterprises including Online Business Loan ("網商貸") and Commercial Vehicle Loan ("商車貸").

Based on the business prospect of different industries, we have developed credit guidelines to classify credit origination preference into five categories: "priority support" (優先支持類), "appropriate support" (適度支持類), "prudent maintenance" (審慎維持類), "restriction" (限制介入類) and "prohibition" (退出禁止類). We prioritize allocation of our credit resources to the industries in the "priority support" category, such as environment management, education, medical and health and transportation industries, as well as our green credit industry. Based on in-depth evaluation of our overall asset portfolio and the specifications of each individual project, we provide calculated credit support to industries in the "appropriate support" category, such as marine economy, agricultural, retail and tourism industries. Our "prudent maintenance" category includes real estate, construction, food processing and textile and clothing industries. For more details on loans to real estate industry, please see the subsection headed "— Credit Risk Management — Credit Risk Management for Corporate Loans — Portfolio Management". The "restriction" category and "prohibition" category include the industries expressly restricted or prohibited by PRC Government, clients with unfavorable credit records and other clients who we believe do not meet the requirements of credit extension, such as steel, paper and shipbuilding industries. For the "restriction" category and "prohibition" category, we refrain from granting new credit and have gradually reduced the amount of outstanding credit extended to the relevant clients.

We formulate different credit policies for different customers. For personal loans and loans to micro and small enterprises, we have also formulated specific policies based on the type of loan product, customer type, industries etc. and we update these policies from time to time in line with our bank-wide risk management policies.

Credit Risk Management for Corporate Loans

Our credit risk management procedures for corporate loans include pre-loan investigations, credit review and approval, loan disbursement management, post-disbursement management and non-performing assets management. The following flowchart illustrates the process of the credit risk management for our corporate loan business.



Pre-Loan Investigations

Customer Application, Pre-loan Investigation and Credit Rating

After a corporate banking customer submits a loan application, we start our pre-loan investigation process. We require the applicant to provide necessary supporting documents, such as its organizational documents, business certificates and recent financial statements. We also require the applicant to provide its ownership certificates and valuation reports for collateral and pledges for secured loan application, and the information and relevant supporting documents about its guarantors, if the loan is guaranteed. Our account managers will review relevant documents pursuant to our established criteria and verify their authenticity and validity.

In addition to examining key credentials, depending on the nature of the loan and the amount of the loan, we also require on-site due diligence as part of our pre-loan investigation. To prevent operational risk, we adopt a "two-person investigation" ("雙人調查核實") mechanism which requires two account managers to conduct on-site investigations. The account managers shall visit the borrower's business premises and inspect its manufacturing equipment, inventories, value-added tax invoices and interview staffs (if applicable) before preparing the due diligence report. Our account managers also examine the borrower's shareholding structure if the borrower itself is a company, credit history, operational status, compliance status, industry development, regulatory environment and financial condition, and conduct an analysis of the customer's proposed use of proceeds and capability for repayment. In particular, depending on the nature of the loan, the account managers may scrutinize the legitimacy and rationality of the loan demand before determining if the borrower's intended use of proceeds is consistent with its business needs and development plan. Based on the preliminary analysis of the borrower's profile, our account managers will prepare due diligence report. For details of the due diligence report, please see below "— Verification of Underlying Documents".

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.

Upon the completion of the above investigative process, we typically assign a credit rating to each potential corporate borrower to assess its probability of default. Based on a variety of financial and non-financial criteria, our credit rating system currently consists of ten levels, i.e., AAA, AA, A, BBB, BB, B, CCC, CC, C and D. CCC indicates vulnerability to default risk and with each rating below CCC, the default risk increases. We revisit a customer's credit ratings at least annually and within 15 business days upon the occurrence of material changes in the customer's operations and/or financial conditions.

Appraisal of Collateral, Pledges and Guarantees

We conduct collateral and pledges appraisal prior to approving an application for secured loans. Our internal policies have specified types of acceptable and non-acceptable collateral and pledges, as well as the appraisal procedure and the standard for determining loan-to-value ratios, an indicator that compares the size of a loan to the value of the property mortgaged and pledged. We require the customers to provide detailed information and supporting documents about the collateral and pledges that, depending on the type of the assets, including (i) the certificates of ownership, and other relevant documents showing control of the relevant assets; (ii) the business certificate, articles of association and the necessary shareholders' resolutions or board resolutions for corporate mortgagers or pledgers; and (iii) the identification documents for individual mortgagers or pledgers.

We engage qualified third-party appraisers to issue reports on the value of collateral and pledges under certain circumstances, e.g. we do not have the technical ability required for the valuation. We review the valuation reports issued by third-party appraisers to ensure that they reflect the actual value of the collateral and pledges. We also determine the necessity of re-valuation considering the conditions of relevant collateral and pledges and the market conditions in accordance with *Weihai City Commercial Bank Co., Ltd. Collateral Management Rules* (《威海市商業銀行押品管理程序》). In principal, we conduct such revaluation annually. For collaterals with sensitive pricing, we strengthen revaluation frequency. In terms of collateral and pledges management, we have established a collateral and pledges verification reporting system, where our branches and sub-branches submit reports to the headquarters on a regular basis, respectively.

We determine the loan-to-value ratios of the loans by considering various factors such as the collateral and pledges' market value and condition. The maximum loan-to-value ratios for the principal types of collateral and pledges securing our corporate loans are as follows:

Type of collateral and pledges	Maximum Loan-to-Value Ratio
Collateral	
Residential properties	70%
Commercial and comprehensive properties	60%
Industrial properties, construction in progress and land use rights for state-owned land	50%
Rights to use forest and sea	60%
Shipping	40%
Bulk cargo shipping	50%
Pledges	
Accounts receivables	80%
Shares	70%
Warehouse receipts	70%
Bank acceptance bills and certificates of deposit	90%

For guaranteed loans, we conduct a comprehensive analysis on the guarantors' background to determine the qualification, capacity, reliability and willingness of the guarantor. We generally hold the guarantor liable for our loans. For individual guarantors, we examine their identification documents, supporting documents for repayment abilities such as proof of employment and salary issued by their employers, and other relevant documents. For entity guarantors, we generally require them to provide (i) business certificates, articles of association and other necessary organization documents; (ii) their shareholders' resolutions or board resolutions approving provision of relevant guarantee; and (iii) other documents as necessary. We also request guarantors to provide information about existing loans and guarantees they had provided to other companies. In accordance with our internal policy, we are required to carry out cautious pre-loan investigation for the application of loans guaranteed by related enterprises within the same group, or enterprises in the same industry or with similar business operations that may be vulnerable to similar risk factors.

Verification of Underlying Documents

We pay close attention to verifying the authenticity and validity of the loan application and supporting materials submitted and others materials collected during the pre-loan investigation process. We conduct documents verification and on-site verification. For loan documents verification, we check the consistency of copies and originals and collect credit information of the loan applicant and relevant guarantors (where applicable) from our internal database and from public sources, including the National Enterprise Credit Information Publicity System ("國家企業信用信息公示系統") and the List of Untrustworthy Individuals ("失信被執行人名單"). We also conduct on-site verification for the business address and operating conditions of the borrowers. From time to time, depending on the nature of the loan and our due diligence plans, we also contact borrowers' third-party suppliers, customers and competitors to obtain additional information about the borrowers as well as verifying their background.

Based on the analysis of the borrower profile, our account managers prepare a due diligence report after the verification process is completed and then submit to the authorized approvers for review and approval according to our internal procedures. We require at least two account managers to prepare and counter-sign the report and hold them jointly responsible for the authenticity, completeness and validity of the information in the due diligence report.

Credit Review and Approval

We determine the authorization of credit review and approval based on the type of business, type of guarantees, credit amount etc. Furthermore, to better serve and manage loan applications, our headquarters, branches, Supervising Divisions and Directly Administered Sub-branches are authorized to process credit applications within their authorization authority. To optimize the balance between business development and risk management, we adjust credit review and approval authority based on various factors such as industry management and control needs, the market economic conditions where the operating organization is located, the operation and management level of the operating organization as well as risk management and control ability.

Credit Review and Approval at the Branch/Supervising Division/Directly Administered Sub-branch level

For an application with a credit amount within the approval authority of a branch, Supervising Division or Directly Administered Sub-branch (i.e., resulting in corporate banking credit of no more than RMB3 million), the ultimate approvers are generally the presidents of the branches, Supervising Divisions or Directly Administered Sub-branches, respectively. Credit review at this level is generally conducted by employees in charge of credit review, who examine the documents or information provided by borrowers and other materials obtained during pre-loan investigation. The employees in charge of credit review may require relevant borrowers to provide additional documents for further consideration. Our sub-branches generally do not have credit approval authority and, therefore, all applications at the sub-branches must be submitted to the corresponding branches, Supervising Divisions, Directly Administered Sub-branches or our headquarters for further review and approval. However, the ultimate approvers may be authorized approvers delegated by the president of our headquarters, branches, Supervising Divisions or Directly Administered Sub-branches in compliance with the relevant internal policies.

Upon completion of review by our headquarters, branches, Supervising Divisions or Directly Administered Sub-branches, the employees in charge of credit review prepare a review report on matters such as feasibility, risks and compliance of the business and submit the report to the authorized approvers delegated by the presidents of relevant branches/Supervising Divisions/Directly Administered Sub-branches for review. Business that is required to be reviewed by the Credit Review Committee at branches/Supervising Divisions/Directly Administered Sub-branches will be reviewed and approved by the Credit Review Committee before submitting to authorized approvers for approval.

Credit Review and Approval at the Headquarters Level

For an application with a credit amount exceeding the approval authority of a branch, Supervising Division or Directly Administered Sub-branch (i.e., resulting in corporate banking credit of more than RMB3 million), the application will be submitted directly to the Credit Review and Approval Department of the headquarters for review, and a credit review report, which includes the identified key risks, risk mitigation measures and relevant opinions and recommendations, will be prepared and submitted to the authorized approver for approval or to the Credit Review Committee at the headquarters for review and further to the authorized approver for approval based on credit amount according to our internal procedures.

The diagram below sets forth the general review and approval procedure for our corporate loans as of the Latest Practicable Date.

- Applications resulting in credit of more than RMB3.0 million shall be submitted to the headquarters for review and approval.[1]
- Applications resulting in credit between RMB3.0 million and RMB10.0 million shall be submitted the Chief Credit Approver (首席審批官) for review and approval.

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- Applications resulting in credit of more than RMB10.0 million shall be submitted to the Credit Review Committee at the headquarters for review and approval.
- Applications resulting in credit between RMB10.0 million and RMB50.0 million shall be submitted to the Chief Credit Approver for review and approval.

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- Applications resulting in credit between RMB50.0 million and RMB300.0 million shall be submitted to the vice-president of the Bank for review and approval.

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- Applications resulting in credit of more than RMB300.0 million shall be submitted to the president of the Bank for review and approval.

Notes:

(1) The ultimate credit amount is subject to the specific authorization letter. The credit authorization differs according to the type of business and guarantees.

(2) We have same credit review and approval procedure for our personal loans.

We have a Chief Credit Approver ("首席審批官") and a Senior Professional Credit Approvers ("高級專業審批人") who are professional employees who are authorized to conduct the review and approval of a case independently. Specifically, an independent approver has the rights to: (i) conduct credit ratings on corporate customers; (ii) independently perform credit review duties to supplement the existing due diligence report and credit analysis; and (iii) participate in broader credit review and approval related matters, such as commenting on credit guidelines for different industries, geographic regions and products, and assisting with the formulation of our credit policy.

We select professional approvers internally with requisite experience and expertise. The Credit Review Committee at our headquarters shall conduct a preliminary examination of the candidates' qualifications and the candidates who have passed such preliminary examination shall be appointed upon approval by the Party Committee (黨委會) according to the internal requirements.

As of the Latest Practicable Date, the Credit Review Committee at our headquarters consists of seven members and is chaired by Mr. Zhang Renzhao (張仁釗). We periodically review the composition of the Credit Review Committee to ensure that it remain compatible with our business needs.

Loan Disbursement Management

Execution of Loan Agreement

After the approval of a corporate loan application, we enter into a loan agreement and, if applicable, an agreement of collateral, pledges or guarantees with the borrower and the guarantor using our standard terms. We require at least two employees to be present at the execution of the loan agreement. Any deviation from the standard terms must be reviewed by the loan origination department and other relevant departments, including the Legal and Compliance Department, or external legal advisors.

Verification of Conditions Precedent

We have established a standardized operational procedure for corporate loan disbursement. Our relevant business departments at the headquarters, branches and sub-branches are responsible for the overall management and supervision of corporate loan disbursement. Our account managers are responsible for handling the post-approval matters including the registration and insurance of collateral. We require two persons to independently conduct a review of these post-approval matters. These reviewers verify the completeness and legal validity of the disbursement application and other supporting materials submitted by the borrower, such as the ancillary agreements and the required evaluation reports, to ensure that all conditions precedent specified in the credit approval documents are satisfied.

Fund Disbursement

Upon the execution of the loan agreement and the relevant collateral/pledge agreement, as well as the fulfillment of the post-approval matter as mentioned above, headquarters and branches will commence loan disbursement in accordance with the internal procedures.

Post-disbursement Management

Our post-disbursement management consists of post-disbursement inspection, risk monitoring and alert, maturity and collection management, and loan classification.

Post-disbursement Inspection

We conduct routine inspections at the post-disbursement stage that comprise on-site visits, periodical examination and continuous monitoring. The frequency of our routine inspections varies mainly depending on the amount of credit granted, the type and classification of loan products as well as their respective credit rating. For customers with loans classified as "normal" and "concentration", our account managers conduct on-site inspection on a quarterly basis. For customers with loans classified as "substandard" or below, our account managers conduct on-site inspection at least on a monthly basis.

During the regular on-site inspections, we look into factors closely related to the corporate borrowers' business operations, including but not limited to (i) the business relationship with and operational status of, their major customers and suppliers, existence of actual or potential disputes, and significant shifts in management or corporate structure; (ii) their financial conditions, especially fluctuations in sales, profits, cash flows, inventory, receivables, payables and borrowings; and (iii) non-financial factors such as macroeconomic trends and industrial development.

Our account managers also closely monitor the use of loan proceeds and the conditions of the collateral as part of our standardized post-disbursement procedures. According to *Credit Monitoring and Management Measures of Weihai City Commercial Bank Co., Ltd.* (《威海市商業銀行信貸資金監控管理方法》), our account managers are required to keep a detailed inspection log on the borrower's use of proceeds and prepare a periodic loan inspection report which include details of misappropriation, for example, short-term working capital loan proceeds funneled into long-term fixed-asset investment or vice versa. Upon noting misappropriation of funds, we take intervening and follow-up measures including suspension of scheduled fund disbursements (if applicable) and demand the relevant customer to carry out remedial actions within a specified period of time. During the Track Record Period, vast majority of the usage of the loans granted by us to our customers were consistent with the purposes stated in their respective loan documents based on our follow-up inspections and monitoring. We also enhance risk monitoring and inspections on the loans to ensure the loan collection and recovery. Our branches are also required to submit a report on supervision over use of proceeds to the Risk Management Department at the headquarters on a regular basis. For more details of risk monitoring, please also see the subsection headed "— Post-disbursement Management — Risk Monitoring and Alert" below. During the regular post-disbursement inspections, we look into factors closely related to the corporate borrowers' operations, including but not limited to (i) industry developments and trends; (ii) business operation status regarding their major customers, products and investments; and (iii) their financial conditions, especially changes in their sales, profits, inventory, receivables, payables and borrowings. Our account manages in branches and sub-branches conduct checking and reporting to the headquarters on a quarterly and annual basis, respectively.

We have established a data reporting system where we can obtain information in relation to customers, business and guarantees and conduct preliminary checking and inspection on a monthly basis. If there is any doubt, we will further carry out off-site monitoring by obtaining and analyzing information from the PBoC's Credit Inquiry System, National Enterprise Credit Information Publicity System ("國家企業信用信息公示系統") and other third-party sources including the Internet and the media. We regularly check borrowers' and guarantors' credit reporting records, in the Credit Reference Center of PBoC ("中國人民銀行徵信中心"). If we identify any risk signal, we will take appropriate measures according to the nature and severity of the problem, such as requesting additional collateral or imposing a lower credit limit.

Risk Monitoring and Alert

We have established a credit risk monitoring system ("信用風險監控體系") with financial warning signals, non-financial warning signals, third party warning signals, bank warning signals and natural person early warning signals. We maintain a list of key customers ("駐廠名單制") subject to enhanced monitoring and makes periodical adjustments to the same, considering the customer's repayment status and asset quality, complexity of its business and corporate structure, and our credit line and risk exposure to the customer. Since 2018, our headquarters has appointed seven specialized working groups to conduct on-site inspections of our credit risk management performance on the key customers of certain branches and Supervising Divisions.

Maturity and Collection Management

In general, we require our account managers notify the borrowers of upcoming repayment by written notice within 15 business days before the due dates. At least five business days before the date of interest settlement, we require our account managers to notify the borrowers to make sufficient deposits into their bank accounts if the funds there are not enough to pay the relevant interest.

For overdue loans, we generally require our account managers to send timely written reminders to the customers in default and their guarantors, if any, right after the due date and until all the past due principals and interest are paid in full. If we do not receive any responses to the written reminders, we may collect the payment in person, serve notarized notices or file lawsuits, as appropriate, to timely toll the statute of limitations.

Loan Classification

Loan classification is an important part of our post-disbursement monitoring measures. For risk management purposes, we divide our credit assets into five levels in accordance with relevant CBIRC requirements, namely "normal" (level 1 to 3), "special mention" (level 1 & 2), "substandard" (level 1 & 2), "doubtful" (level 1 & 2) and "loss", and consider the loans classified as "substandard" or below as non-performing loans. The factors we consider in classifying our loans include, without limitation, the repayment ability, credit history, and willingness of the borrowers, the profitability of the underlying projects, the guarantees of the loans and the legal liabilities of parties in relation to the repayment of the loans as well as the Bank's credit management.

Account managers at our headquarters and branches conduct a preliminary classification for the corporate loans based on various factors such as borrowers' repayment ability, borrowers' willingness, repayment history, guarantees and collateral, and submit the results to the authorized approvers for their approval. If there are material changes in the factors affecting the borrower's financial situation or loan repayment ability, the classification of loans will be adjusted in a timely manner.

We closely monitor the quality of loans. If a factor possibly resulting in a downgrade of classification is triggered, our account managers are required to make timely submission of reclassification to the authorized approvers, and then such authorized approvers should review and timely adjust the loan classification to reflect the actual risk circumstances.

As of the Latest Practicable Date, we are of the view that we were not subject to material risks associated with excessive guarantees that relevant borrowers or guarantors provided to third parties. We had also made sufficient provision against credit risks, including risks associated with excessive guarantees provided by borrowers and/or guarantors to third parties in relation to our loans and advances. For details of methodology and accounting policies relating to provisioning, please see the sections headed "Assets and Liabilities — Assets — Allowance for Impairment Losses on Loans to Customers" and "Financial Information — Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies". Please also see the section headed "Risk Factors — Risks Relating to Our Business — We are subject to risks relating to the value or realization of our collateral or guarantees securing our loans to customers".

Non-performing Assets Management

We attach great importance to the management of non-performing assets. The Assets Preservation Department working with our Risk Management Department at our headquarters is responsible for bank-wide collection and disposal of non-performing assets by our branches and sub-branches. We invest in the continual improvement of non-performing assets disposal mechanism through a broad range of measures such as establishing and updating policies according to prevailing regulatory environment, innovation of collection scheme, introduction of professional staff and enhancing our review of collection by our branches and sub-branches.

We recover non-performing assets through various means, including repayment negotiation, legal proceedings and arbitrations. We may also write off non-performing assets according to the requirements of MOF and make tax adjustments according to the MOF rules, the record of which will be filed. We reserve our rights to collect from the debtors and proactively pursue our collection, and to downgrade a borrower's credit ratings. We do not issue new credits to a borrower who is behind on repayment.

Cash Collection and Debt Restructuring. Our most common ways of collection involve direct requests. If such attempts are unsuccessful, and to the extent permitted by the applicable laws and regulations, we proactively negotiate with debtors with repayment capabilities to modify the terms of the loan agreement, so as to reduce the possibility of immediate default and mitigate short-term credit risks. For debtors going through major restructuring, we may also participate in the debt restructuring plans, where we agree to be paid through, among other options, trading our rights as creditors of the restructuring company for rights as a shareholder, and may afterwards collect income through these rights or exit through selling them in the market.

Legal Proceedings and Arbitrations. For debts that cannot be paid off in the foregoing manners, we may turn to legal proceedings, or apply for compulsory execution, to collect debts. For cases involving complicated factors, we engage lawyers with extensive experience to enforce debt collection, including the disposal of collateral and pledges, or the application for attachment or compulsory execution orders.

Write-off of Bad Debts. We may write off eligible non-performing assets according to the *Administrative Measures for the Debt Write-off of Financial Enterprises* (《金融企業呆賬核銷管理辦法》) issued by the MOF (the "**Debt Write-off Measures**") and our internal policies such as Operation Guide for Bad Debt Write-off Management (《呆賬核銷管理作業指導書》). Under the Debt Write-off Measures, we can only recognize bad debt if a creditor's debt meets one of the criteria listed under the annexes to the Debt Write-off Measures, after taking all possible measures and carried out the necessary procedures. Our Assets Preservation Department at the headquarters and relevant branches are mainly responsible for recognizing such bad debts, preparing relevant materials and submitting the same to the Risk Management Committee at our headquarters for approval. For transferring of non-performing assets to third parties at a discount to book value, with respect to the difference between the consideration of the transfer and the balance of such non-performing assets, our Assets Preservation Department at the headquarters and the relevant branches will recognize such differences as bad debts and write-off such bad debts in accordance with the Debt Write-off Measures and our relevant internal policies.

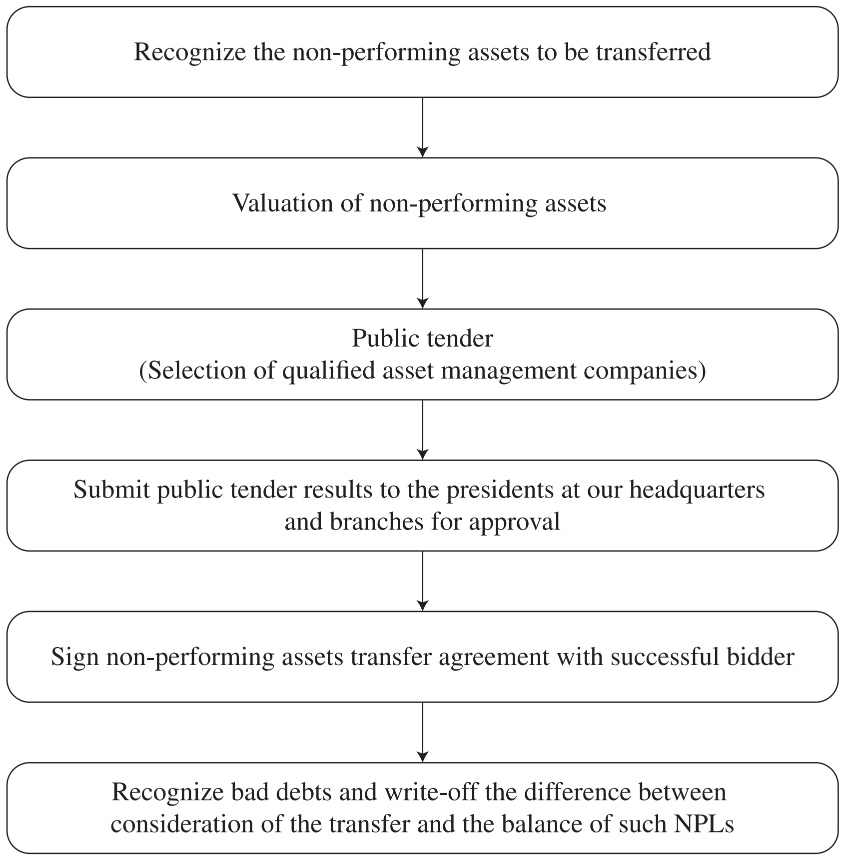
Transfer to Third Parties. We may transfer non-performing assets to third parties including asset management companies in accordance with *the Management Measures on the Bulk Transfer of Non-performing Assets of Financial Enterprises* (《金融企業不良資產批量轉讓管理辦法》) issued by the MOF and the CBRC, *Bad Credit Asset Management Procedure of Weihai City Commercial Bank Co., Ltd.* (《威海市商業銀行不良信貸資產管理程序》) and *Administrative Measures of Risk Credit Assets Transfer of Weihai City Commercial Bank Co., Ltd.* (《威海市商業銀行風險資產債權轉讓管理辦法》), so as to achieve relatively rapid recovery of funds. Our transfer of non-performing assets adheres to principles of legal compliance, openness and transparency, competitive selection and value maximization.

The Risk Management Department takes the initiative in recognizing the non-performing assets to be transferred, working together with the Assets Preservation Department and other relevant business departments at the headquarters and relevant branches. For disposal of non-performing assets at book value, we normally transfer to Independent Third Party without having a public tender. For disposal of non-performing assets at a discount to book value, we will hold a public tender at the Risk Management Committee's meeting where we typically invite at least three qualified asset management companies to participate in such public tender. The asset management companies we invite shall be established or authorized by the PRC governments or meet the following requirements: (i) having obtained a financial license issued by the CBIRC; (ii) having a sound corporate governance and an internal control framework; (iii) having the relevant experience in the management and disposal of non-performing assets; and (iv) having a registered capital of more than RMB1.0 billion.

Prior to the above-mentioned public tender, we undertake internal valuation of the non-performing assets to be transferred, taking into account a variety of factors including debtor's business operations, financial conditions and repayment willingness, value of collaterals and pledge, discount level of the transfer as well as our credit risk control, business strategies and relevant laws, regulations and market environment. Our Risk Management Department, Assets Preservation Department and relevant business departments at the headquarters and relevant branches are responsible for preparing assets valuation reports that are required to objectively and fairly reflect the status and value of non-performing assets and fully disclose risks on the relevant assets. We adopt a comprehensive approach combining on-site and off-site methods to carry out sufficient and objective investigation on the relevant non-performing assets, and may also take the valuation report for collaterals from third parties for reference where applicable. The valuation price, either arrived through our internal valuation or external valuation, will be used as a guide for reserve price for public tender or bases for transfer to third party. The prospective buyers also conduct their own due diligence and we will provide relevant information of non-performing assets to them.

The tender results will be submitted to the presidents of our headquarters and relevant branches for approval before we enter into a non-performing assets transfer agreement with the successful bidder. The relevant agreements entered into between transferees and our Bank are lawful and valid, according to which, the transfer of non-performing assets is conducted in a one-off manner. Such transfer is not subject to recourse and we have no obligation to collect or repurchase the relevant assets. For the difference between consideration of the transfer and the balance of such NPLs, our Assets Preservation Department at the headquarters and relevant branches will recognize bad debts and write-off such bad debts in accordance with our internal policies.

The following chart illustrates our procedure of transferring non-performing assets at a discount to book value as of the Latest Practicable Date.



Portfolio Management

We have established credit risk management policies governing our loans to certain types of borrowers who are generally considered to carry higher risks under the prevailing market conditions and regulatory environment, including LGFVs, real estate industry and industries associated with heavy pollution, high energy consumption or overcapacity.

Credit Risk Management for Loans to LGFVs

As of December 31, 2017, 2018, 2019 and March 31, 2020, loans we granted to LGFVs amounted to RMB16 million, nil, RMB70.0 million and RMB70.0 million, respectively, accounting for 0.03%, nil, 0.11% and 0.10% of our corporate loans, respectively. As of the Latest Practicable Date, our loan to LGFVs was classified as normal.

We impose strict control on our credit extension to LGFVs. We strengthen our risk management by limiting the total amount of credit for LGFVs and optimizing our assets structure. We strictly prohibit extending credit to customers on the LGFVs list and extend additional loans to our existing customers on the LGFVs list.

We closely monitor the progress of the project, review the LGFV's financial and operational status and conduct quarterly on-site investigation on the relevant project.

Credit Risk Management for Loans to Real Estate Industries

We extend real estate development loans in accordance with national guidelines and policies for real estate development, relevant laws and regulations, and our internal policies. We prioritize our support to leading nationwide or regional real estate developers, and prudently support new or small-scaled real estate developers. We also consider the geographic locations and types of the projects and provide tailored financial products to different customers.

In terms of project types, we prioritize our support for regular residential property development projects and prudently support commercial property development projects, particularly those commercial property projects that can only be used for limited types of business. For our real estate development loans, we only extend credit to the borrowers who have obtained all necessary government approvals, permits and certificates and have good credit record. We prohibit credit extension to real estate development projects (i) which are significantly overpriced compared to similar properties; (ii) where the construction is deliberately delayed or suspended, (iii) the land reserve of which has remained idle for a long period of time; (iv) the capital of which is inadequate or inauthentic; and (v) that are restricted under relevant national government policies, industry policies or macro-control policies.

As of December 31, 2017, 2018, 2019 and March 31, 2020, corporate loans we granted to real estate industries amounted to RMB2,048.5 million, RMB1,872.5 million, RMB4,581.8 million and RMB5,573.5 million, respectively, accounting for 4.0%, 3.5%, 7.2% and 7.9% of our corporate loans, respectively.

Credit Risk Management for Loans to Industries with Heavy Pollution, High Energy Consumption or Overcapacity

The State Council and the CBIRC have promulgated policies to restrict loans to industries with heavy pollution, high energy consumption or overcapacity. In accordance with these policies, we strive to reduce our risk exposure to these industries and prohibit all forms of new credit extensions to the entities or projects not in compliance with national industrial policies and market entry conditions. Meanwhile, we prudently support industry leaders in certain sectors within the energy industry, especially those with advanced innovative technology capacity to promote clean production and consumption efficiency.

As of December 31, 2017, 2018, 2019 and March 31, 2020, loans we granted to enterprises in steel, coal, cement and plate glass industries, which are commonly associated with heavy pollution, high energy consumption or overcapacity amounted to approximately RMB2,707.5 million, RMB2,143.6 million, RMB1,786.8 million and RMB1,750.4 million, respectively, accounting for 5.3%, 4.0%, 2.8% and 2.5% of our corporate loans, respectively. None of the enterprises' manufacturing facilities or production lines fall within national phased-out or restricted categories. As of December 31, 2017, 2018, 2019 and March 31, 2020, the NPL ratio of our loans granted to these industries was 2.1%, 0.3%, 0.8% and 0.8%, respectively. For more details on credit risks arising from our loans to these and other industries, please see "Risk Factors — Risks Relating to Our Business — We face concentration risks from our credit exposure to certain industries, borrowers and geographic regions".

We conduct pre-loan examination and confirmation on whether a customer's equipment and production technology falls into the outdated production capacity being phased-out in accordance with national policies, before extending loans to enterprises in industries with heavy pollution, high energy consumption, and overcapacity.

Credit Concentration Management

To control the credit concentration risks arising from the expansion of our credit businesses and to comply with relevant laws and regulations, we closely monitor the balance of loans granted to a single borrower on a monthly basis to ensure that the balance of loans granted to the same borrower does not exceed 10% of the net capital of the Bank. We impose limits on the total credit that can be granted to a single customer, which we adjust based on national and local laws and regulations, as well as our credit policies.

In recent years, PRC Government has promulgated a series of regulations with an aim to mitigate and prevent concentration of credit risks across the PRC banking industry, including the *Measures for the Administration of the Large Exposures of Commercial Banks* (《商業銀行大額風險暴露管理辦法》) and the *Administrative Measures for Joint Credit Granting of Banking Financial Institutions (Provisional)* (《銀行業金融機構聯合授信管理辦法(試行)》) issued by the CBRC on April 24, 2018 and May 22, 2018, respectively. Please refer to "Risk Factors — Risks Relating to the PRC Banking Industry — The PRC banking industry is highly regulated, and we are susceptible to changes in regulation and government policies".

After the promulgation of the *Measures for the Administration of the Large Exposures of Commercial Banks* (《商業銀行大額風險暴露管理辦法》), we started establishing a system to control large exposures involving bank and non-bank customers. We also set up a series of measures and methods to manage large exposures, including connected customers identification, recognition and monitoring. With respect to the *Administrative Measures for Joint Credit Granting of Banking Institutions (Provisional)* (《銀行業金融機構聯合授信管理辦法(試行)》), we conduct investigation on our customers to select customers available for joint credit granting and at the same time, prepare to coordinate with the lead bank to work on the management of joint credit extending after the local regulatory authorities and bankers association release the unified work arrangement for joint credit granting in pilot enterprises. For more details on our credit risk limit indicator, please see "Supervision and Regulation — Loan Classification, Allowances and Write-offs — Other Operational and Risk Management Ratios".

Credit Risk Management for Personal Loans

Our credit risk management procedures for personal loans are similar to credit risk management procedures for corporate loans including pre-loan investigations, credit review and approval, loan disbursement management and post-disbursement management.

Pre-loan Investigations and Credit Rating

Upon receipt of personal loan applications, our account managers conduct due diligence on applicants through on-site and off-site investigations. In pre-loan investigations, we take into account the applicants' basic information, credit history, income, the intended use of proceeds and the source, methods and ability of repayment as well as the security of the loans. We generally designate two account managers to review the supporting documents and verify the information provided by the applicants. We also require these account managers to conduct interviews in person with the applicants to verify applicants' true identification, occupation and to examine their financial conditions. Based on their due diligence work, our account managers analyze in depth the legitimacy, necessity and rationality of the loan demand, reliability of repayment source, potential credit risks and other relevant factors. The account managers then prepare a due diligence report that sets forth their opinions on credit limit, term and interest and other issues pertinent to the personal loan application.

We also investigate the credit records of applicants based on the information collected from internal data, the PBoC or other sources. For personal loans secured by collateral and pledges, we usually designate a third-party appraiser to verify the value of the collateral and pledges, similar to the valuation for corporate loans. For details, please see the subsection headed "— Credit Risk Management — Credit Risk Management for Corporate Loans — Pre-Loan Investigation — Appraisal of Collateral, Pledges and Guarantees". For guaranteed personal loans, we also investigate the guarantors' background, financial conditions and guarantee ability.

We have the same credit rating system for our corporate loan and personal loan business, please see the subsection headed "— Credit Risk Management — Credit Risk Management For Corporate Loans — Pre-Loan Investigations — Customer Application, Pre-loan Investigation and Credit Rating".

Credit Review and Approval

We generally determine the authorization of credit review and approval based on the type and amount of the loan to be approved. We routinely adjust the standards and structure of the authorization based on changes in various elements that may affect our business, including changes to the local markets and the nature and specification of relevant collateral and pledges.

Credit Approval at the Branch/Supervising Divisions/Directly Administered Sub-branch Level

For an application within the credit authority of a branch, Supervising Division or Directly Administered Sub-branch, the president of the branch is the ultimate approver. Credit review is generally initiated by the specific business department for conducting preliminary review and assessment, which will be further submitted to the credit review and approval department at the upper level for review. After passing the review and assessment, it will be submitted to authorized approver at the branch/Supervising Divisions/Directly Administered Sub-branch level for review and approval according to our internal procedures. If the business is required to be reviewed by the credit review committees at the branch/Supervising Branch or Directly Administered Sub-branch level, it will be submitted to authorized approver for approval upon review and approval by the Credit Review Committee.

Credit Approval at the Headquarters Level

For an application with a loan amount exceeding credit authority of a branch, Supervising Divisions or Directly Administered Sub-branch level, it must be submitted to the Credit Review and Approval Department at the headquarters for review, and according to internal procedures based on credit amount, it will be submitted to authorized approver for review, or will be submitted to Credit Review Committee at our headquarters for review first, then be further submitted to authorized approver for approval. The authority of the ultimate approvers is determined according to our internal procedures, based on the type and amount of the loans subject to review. For personal loans, we have the same review and approval procedure, please see the subsection headed "— Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Review and Approval".

Loan Disbursement Management

The disbursement procedure for personal loans is similar with our corporate loans. Upon the approval of a personal loan application, we enter into a loan agreement and other ancillary agreements with borrowers. We disburse the funds to personal customers only upon the satisfaction of all the conditions precedent specified in the credit approval documents and the loan agreements. For secured loans, we disburse loans only after completion of relevant collateral appraisal and guarantee procedures.

Post-disbursement Management

We conduct routine inspections and special inspections after the disbursement of the loans. We check the use of proceeds by analyzing relevant accounts, examining documentations and depending on the nature of the loan, conducting on-site investigations. Our inspection requirements vary based on the types and the classification of the loans. We generally conduct inspections on customers with loans classified as normal on a quarterly basis, and on customers with loans classified as special mention or as below on a more frequent basis.

We generally examine borrowers' basic information such as marriage status, health conditions and credit history. For personal business loans, we also analyze borrowers' business and financial conditions and repayment abilities by checking their financial statements, business scope, major customers, transaction value and transaction volume. For personal consumption loans, we generally examine borrowers' assets condition, proof of income and other relevant documents to analyze their repayment abilities and use of proceeds. For residential mortgage loans, in addition to monitoring the changes in the borrowers' repayment abilities, we inspect the operations and financial condition of the real estate developers, as well as the status of their projects.

Our risk monitoring and alert, loan classification, maturity and collection management and non-performing assets management for personal loans are similar to those for our corporate loans.

Credit Risk Management for Off-Balance Sheet Businesses

We strictly review the underlying business of off-balance-sheet transactions and verify the authenticity of the transaction documents. We also require strict compliance with our internal procedures to ensure that no transaction relating to products, projects or activities prohibited by the current laws and regulations will be approved.

Related Party Credit Risk Management

To control risks arising from related party transactions and ensure our compliance with relevant laws and regulations, we have specified in our internal policies the standards for identifying related parties, the review and approval procedures for related party transactions and the reporting and registration requirements for such transactions.

We vigorously implement our internal control procedures to identify all our business relationships with the related parties and to maintain a centralized monitoring and management system for related party transactions. According to our internal policies, our credit extensions to the related parties shall not lead to conflicts of interest. The pricing of the related party transactions must be objective and fair without prejudice to our interest or the interests of our independent shareholders. If we extend loans to our related parties, the interest rates shall be consistent with the market rates and the terms of the loans shall not be more favorable than those for independent borrowers of the same type during the same period. We continue to optimize our related party credit investigation, review and approval processes to further reduce the credit risks in relation to our shareholders and other related parties.

Credit Risk Management for Our Financial Market Business

Our financial market business is exposed to credit risks associated with interbank market transactions, debt securities investment and SPV Investment.

Credit Risk Management for Interbank Market Transactions

We assign an aggregate credit limit to each domestic bank and non-bank financial institutions that we make transactions with. Our risk review team (風險評審小組) is responsible for conducting an initial review on credit applications from interbank customers. Our Credit Review and Approval Department and Credit Review Committee at the headquarters are responsible for further reviewing and approving the interbank credit extension, by taking into account various factors including interbank customers' qualification and the type, term and amount of the proposed credit extension.

We conduct regular evaluation on our interbank customers' capital strength, business operations, financial condition, compliance with regulatory indicators, proposed cooperation with other parties, risk events and other external factors that could affect their ability to honor their contractual obligations such as regulatory environment. Regular evaluation on our customers enables us to identify potential risk alert signals and adjust the interbank credit limits in a timely manner.

We also adopt a name list system management as part of our credit risk management for interbank market transactions and actively readjust the name list based on policies in place, market condition, and conditions of our interbank customers. Under our name list system management, we prioritize business transactions with interbank customers with strong creditworthiness or those listed on the A-share and H-share main boards, and selected strategic city commercial banks. We exclude those financial institutions with rating below A+ (not including A+) and those that have negative reputation or negative publicity in the market in our name list system.

Credit Risk Management for Debt Securities Investment and SPV Investment

We have implemented a variety of risk management measures to control the risks associated with our investments in different types of financial products.

Debt Securities Investment

We apply the principle of prudence in managing the credit risks arising from our investments in debt securities. For debt securities issued by enterprises, we apply a stringent credit review and approval procedure similar to that for corporate loans. The ultimate debtors of corporate debt securities are subject to our unified credit extension management. Corporate debt securities investment must be first reviewed by the Credit Review Committee and subsequently by the authorized approvers. We also monitor our debt securities investment's impact on our capital adequacy, liquidity and the maturity structure of our assets and liabilities.

SPV Investment

We have established a comprehensive risk management system for our investments in trust plans, asset management plans and wealth management products. Specifically, we have adopted the following measures to manage the credit risks relating to our SPV Investment business.

Underlying asset credit risk management. We adopt the same credit risk management standard as in our loan business for SPV Investment. For investment plans with a single borrower, we use the same credit review and approval standards to evaluate the creditworthiness of the borrower. In addition, we manage credit line for ultimate financing party in a holistic view, which means we set up an overall credit line for every borrower we serve, no matter which financing method we provide.

Counterparty Management. We implement and maintain a list of approved banks and financial institutions, which is subject to review and update, pursuant to our internal policy. When choosing a counterparty, we conduct comprehensive evaluation on a broad range of factors, including but not limited to the potential counterparties' qualification, operation conditions and credit records, and we will from time to time adjust the list of counterparties based on the evaluation result. Generally, we assign a credit rating for each of these counterparties and classify them into different categories.

Due Diligence. We require our business departments to conduct due diligence on the ultimate financing parties prior to the investment. Our relevant business departments who originate the application should conduct comprehensive due diligence investigation on the credit history, reputation, use of funding and the business track records of the ultimate borrowers, guarantors and counterparties and prepare a relevant report on this matter. Our Legal and Compliance Department will review the relevant contracts and other legal documents to make sure that our interest under the proposed investments is protected.

Review and Approval. Our SPV Investments must be preliminarily reviewed by the Financial Market Department at our headquarters, the proposal and all due diligence documents will be submitted to the Credit Review Committee for further review and approval and will be submitted to authorized approvers for final review and approval. We conduct credit review and risk evaluation in relation to SPV Investment products in a similar way as we do for other credit businesses, so that we have a centralized control on relevant risks. For details, please see "— Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Review and Approval".

Inspections and Monitoring. We require the business origination departments to conduct inspections after the fund disbursement and monitor the use of the proceeds. Our business origination departments inspect the operational status, financial condition, project progress and collateral ownership of the financing entities, make quarterly monitoring reports on post-disbursement management and file such reports for records. The business origination departments may also conduct special inspections on any particular industry, region, product or financing entity as it deems necessary. We actively monitor the financial indicators of the financing entities so as to issue risk alerts if any material adverse event is discovered.

Classification. We classify our financial assets based on the same standards applicable to our corporate loans. For details, please see "— Credit Risk Management — Credit Risk Management for Corporate Loans — Post-disbursement Management — Loan Classification".

In addition, we have also implemented specific risk management measures for our investments in different types of financial assets.

Trust Plans and Asset Management Plans. According to *Interbank Business Management Measures of Weihai City Commercial Bank Co., Ltd.* (《威海市商業銀行同業業務管理程序》), before investing in trust plans or entering into asset management transactions, we conduct due diligence on the trust companies, the asset management companies, the securities companies, the financing parties or other financial institutions issuing asset management plans, and make sure such companies have stable operations and a good track record. In addition, we perform a comprehensive assessment, review and approval procedure on the plans. We also conduct post-investment review on the trust plans and asset management plans on a quarterly basis.

Wealth Management Products and Funds. We have established an independent review and approval system for investments in wealth management products and funds. Prior to making an investment in wealth management products issued by other PRC banking and financial institutions or funds, we assess the risks associated with such wealth management products by reviewing various factors, including the credit history and track record of the issuing financial institutions and the portfolio investments underlying the wealth management products. We generally invest in wealth management products issued by policy banks and commercial banks with sound asset management capabilities and are directly managed by the same banks or public funds.

For our investment in wealth management and fund products, we require the relevant issuers to provide us with information concerning the scope of their investments utilizing our funds or a list of assets invested by the issuers for our review. We explicitly prohibit issuing financial institutions from using proceeds of such products in any manner against relevant laws or our internal policies. We may take legal actions to protect our interest if these counterparties fail to perform their contractual obligations.

Information Technology System for Credit Risk Management

We are committed to improving our credit risk management with advanced information technology systems. Our information technology system has realized a match of the corresponding review and approval procedures with the approval departments, committees or approvers and positions for credit business, which reduces the risk of unauthorized approval. Our information technology system automatically identifies group customers for us to effectively control the credit limit of group customers. In addition, our account managers and management departments at all levels can check real-time information of overdue loans through our information technology system to control the risk of overdue loans. The credit rating system for retail business ("零售評級系統") integrates "scoring strategies" ("評分策略") and "trigger rules" ("觸發規則") to put forward with pre-loan approval suggestions and post-loan alerts for retail business. The credit rating system for non-retail businesses ("非零售評級系統") initiates rating calculations based on customer's basic information and financial information through the rating model, which is currently in trial operation.

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. The major type of market risks we are exposed to is interest rate risk and exchange rate risk. The goal of our market risk management is to control the market risk to a tolerable level and to maximize the risk-adjusted returns based on our risk appetite. We have established a market risk emergency response leading group to deal with emergency accidents.

Our market risk management involves the identification, measuring, monitoring and control of market risks. We adopt different quantitative measures to manage various types of market risks in our banking and trading books.

Interest Rate Risk

Interest rate risk arises primarily from fluctuations in the prevailing interest rates and the mismatch in the re-evaluation dates or the maturity dates of our interest rate sensitive on- and off-balance sheet assets and liabilities, which may result in reduction in our net interest income and the value of our assets. The PRC Government has gradually liberalized interest rates in recent years. Since July 20, 2013, commercial banks have been allowed to set interest rates on loans at their own discretion according to their commercial principles. Since October 24, 2015, commercial banks have been allowed to set interest rates for RMB-denominated deposits at their own discretion. As a result of the liberalization of interest rates, the fluctuation of the interest rates has gradually changed from policy-oriented to market-oriented, and therefore subject to more uncertainties.

Impact on Deposits and Loans

Changes in interest rates on our deposits and loans mainly affect our interest rate spread and the value of our loans. As interest rate spread is our main source of operating profit, the PBoC's adjustments to the benchmark on rates of deposit and loan and the resulting changes of market interest rates will affect our revenue structure and profitability. In particular, in respect of our fixed interest rate businesses, changes in interest rates may lead to changes in our customers' decisions. When the interest rate increases, our deposit customers may withdraw their deposits early and put them in other savings products for higher interest rate, which may increase our interest expenses. When the interest rate decreases, our loan customers may repay their loans early and apply for new loans with a lower interest rate, which may lower our interest income.

Impact on Debt Securities and Trust Plans, Asset Management Plans and Wealth Management Products

The fluctuation of market prices of debt securities and financial assets is correlated to changes in benchmark interest rates and market expectations of future interest rates. The market trend in the last few years indicated that valuation of debt securities, trust plans, asset management plans and wealth management products tend to fall when investors expect the benchmark interest rates or prevailing market interest rates to increase. As a result, an increase in interest rate may result in a decrease in the valuation of our existing assets and our profitability. On the other hand, an increase in interest rate may also lead to tighter liquidity, which may in turn drive up the fund cost of investing in debt securities and trust plans, asset management plans and wealth management products. Given the uncertainties about changes in future market interest rates, there is a risk that the value of our investments may decrease due to the market value of financial assets.

Interest Rate Risk Management

We have formulated and implemented relevant interest rate management policies, which allow us to manage the interest rate risk. We set the pricing of our deposit and loan products based on relevant laws and regulations. We use the PBoC benchmark interest rates, funding costs, asset risks and other indicators as the basis for pricing, and determine the prices of our products by considering the demand and business operations of our customers, the industry in which our customers operate and the prices of their competitors' similar products as well as the business relationship between our customers and us.

We periodically conduct sensitivity analysis on interest rates. We analyze the interest rate gap between interest-bearing assets and interest-bearing liabilities on bank accounts and transaction accounts periodically, based on which we guide our business development.

We constantly follow the latest development of government economic policies, especially those that have substantial impact on market interest rates. We continuously monitor and conduct in-depth research on the financial market conditions and macroeconomic conditions, so that we can improve our predictions on the interest rate volatility. Based on the changing trends of market interest rates, we make timely adjustments to the size and structure of assets in response to changes in the market environment so that the maturities of our assets and liabilities can match. We have established various risk management policies for our financial market businesses. For details, please see "— Credit Risk Management — Credit Risk Management for Our Financial Market Business".

Exchange Rate Risk

Exchange rate risk arises primarily from exchange rate fluctuations, as well as mismatches in the currency denomination of our on- and off-balance sheet assets and liabilities and mismatches in the currency positions of our foreign currency transactions, which may result in a loss of profits and a reduction of value of assets. Exchange rate risks faced by banks mainly include trading risk and conversion risk. Trading risk represents the possibility that banks may suffer losses as a result of a change in exchange rate while making payment in foreign currencies. Conversion risk represents the possibility that banks may suffer unrealized losses as a result of changes in exchange rates while converting foreign currencies into the reporting currency.

Exchange Rate Risk Management

We operated a small foreign exchange business which primarily consists of U.S. dollar oriented foreign exchange business. Given the size of our foreign exchange business, we are exposed to limited exchange rate risks. We have put together various policies and operational procedures regarding our foreign exchange businesses, such as foreign currency settlement, sales and payment and foreign currency trading.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk of failure to obtain sufficient funds in a timely manner or at a reasonable cost to fulfill payment obligations when due. Factors affecting our liquidity include changes in the maturity profiles of our assets and liabilities and the monetary policies of the PBoC, such as changes in the statutory deposit reserve ratio. We are exposed to liquidity risks primarily in our lending, trading and investment activities and in managing our liquidity position. The primary objective of our liquidity risk management is to ensure the availability of adequate funding at all times to fulfill our payment obligations and fund our business operation in a timely manner.

We manage liquidity risk through monitoring the maturities of our assets and liabilities to ensure we have sufficient funds in a timely manner or at a reasonable cost to fulfill our payment obligations as they become due. We strictly follow relevant PRC regulations such as the CBIRC's announcement of the *Administrative Measures for the Liquidity Risk Management of Commercial Banks* (《商業銀行流動性風險管理辦法》) and *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)》). We observe the strict regulatory requirements, closely monitor liquidity ratios, formulate crisis management plans, enhance liquidity risk management and regularly apply stress tests. The major measures we have taken to manage liquidity risk include:

- Establishing a liquidity risk management system and an organizational structure where our Board of Directors bears the ultimate responsibilities for our liquidity risk management and our senior management is responsible for formulating liquidity risk management strategies and policies;

- Conducting analysis on source and utilization of funds, actively seeking quality source of funds, including the interbank business;

- Conducting liquidity risk assessment before launching new products or business lines;

- Centralizing cash flow management and position management; monitoring large fund flows and allocation of funds to increase returns on assets;

- Improving the liquidity management system and strictly implementing the limit control, monitoring liquidity risk through multiple key indicators, such as surplus deposit reserve ratio, liquidity ratio, liquidity gap ratio and deposits from top ten customers to total deposits ratio;

- Conducting periodic cash flow analysis and quarterly liquidity stress tests to identify potential liquidity risks and develop risk mitigation measures;

- Reviewing and updating internal strategies and policies in relation to liquidity risk on an annual basis to satisfy liquidity requirements for any contingency; and

- Formulating a liquidity risk contingency plan to satisfy liquidity demand for any contingency, such as default or sudden bankruptcy of counterparties. We closely monitor our liquidity risks and make routine liquidity assessment for the management's review. Upon occurrence of potential liquidity risks, we would, according to the severity of relevant situations, take corresponding measures.

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, misconduct of employees, security failure, business interruptions, information system breakdown, and defects in the execution and settlement of transactions and business process management. Our Legal and Compliance Department at the headquarters takes the lead in organizing the corresponding departments, branches and sub-branches in managing and controlling our operational risks.

Principles of Our Management of Operational Risks

We follow the *Guidelines on the Operational Risk Management of Commercial Banks* (《商業銀行操作風險管理指引》) promulgated by the CBIRC in formulating our operational risk management policies. In managing our operational risks, we follow the key measures below:

Establishment of Three Lines of Defense

While the Board of Directors is ultimately responsible for our operational risk management, the senior management team leads our day-to-day operational risk management. We have established three lines of defense against operational risks. The first line of defense is formed by the various business departments at our headquarters, our branches and sub-branches. The second line of defense consists of our Legal and Compliance Department, who takes the lead in organizing and supervising the operational risk management work implemented by our business departments and other relevant departments. The third line of defense is constituted by our Audit Department, which is responsible for conducting independent valuation of our operational risk management system and its implementation and monitoring the effectiveness of our operational risk management policies.

Standardized Policies and Operational Procedures

We continue to optimize our policies and operational procedures, and conduct inspections and monitoring on key control points. We continue to conduct operational risk evaluation and strengthen the analysis of key risk indicators and organize business departments to conduct study on bank-wide operational risks. We provide a continuous training scheme to strengthen our employees' skills and require all our employees to strictly follow these operational procedures in their daily work.

We have formulated bank-wide inspection plans on internal control and compliance. Based on the regulatory requirements and our day-to-day business operation, we organize all business lines to conduct inspections on the internal control, compliance and operational risks that may arise from the key business procedures and links as well as our employees' abnormal behaviors, to effectively reduce potential operational risks and compliance risks.

Measures to Improve Our Operational Risk Management

We seek to further improve our operational risk management through the following measures:

- Improving operational risk management policies and internal procedures and refine responsibilities of the business departments as well as optimizing our operation risk management system and mechanism.

- Conducting evaluation of bank-wide operation risk and strengthen monitoring and analysis on the key risk indicators.

- Improving an operational risk evaluation procedures for new businesses, new products and new process.

- Reporting compliance risk-related information to the Legal and Compliance Department at our headquarters by our business departments and branches. The Legal and Compliance Department at our headquarters consolidates this information and report to the senior management.

- Strengthening the compliance awareness for our employees through continuous training, on-site inspections and off-site monitoring.

Compliance Risk Management

Compliance risk refers to the risk of being subject to any legal sanctions, regulatory penalties or significant financial loss and reputational loss as a result of failure to comply with any applicable laws, regulations and rules. Our Board of Directors assume ultimate responsibility for our operational and management activities in compliance with relevant applicable laws and regulations. Our senior management is responsible for formulating compliance policies and the Legal and Compliance Department at our headquarters takes lead in our compliance risk management. Our business departments are principally responsible for its respective compliance with the applicable laws and regulations and daily compliance risk management.

- Compliance risk review and evaluation. We conduct review and evaluation on our key compliance risk management policies, periodically identify bank-wide compliance risks and prepare the compliance risk management report to the senior management.

- Compliance risk training and education. We endeavor to enhance the compliance awareness for our employees through regular and specialized training. We arrange different compliance risk training with different risk exposure for the management personnel, the personnel in the key positions and personnel in operation positions.

Legal Risk Management

Legal risk refers to the risk of legal liability arising from violation of laws and regulations, breach of contracts, infringement of legal rights on others or otherwise in connection with any contract or business activities in which we are involved.

Our Legal and Compliance Department takes the lead in our legal risk management. We carry out legal risk management primarily through the following measures:

- Contract review and management of agreements. All contracts and transactional legal documents of the Bank shall be reviewed by the legal departments at respective levels and material contracts shall be submitted to the Legal and Compliance Department at our headquarters for review.

- Strengthening litigation and arbitration management. We formulate internal procedures relating to litigation management, discuss and prepare action plans upon commencement of a litigation.

- Periodic legal training. We periodically conduct multiple bank-wide legal training to enhance the legal knowledge and risk awareness of our personnel.

Anti-money Laundering

In line with the PRC Anti-money Laundering Law and other applicable rules and regulations promulgated by the PBoC, we have established a sound anti-money laundering working mechanism with specific work procedures. *Money Laundering and Terrorist Financing Risk Management Risk Evaluation and Customer Classification Procedure* of *Weihai City Commercial Bank Co., Ltd.* (《威海市商業銀行洗錢和恐怖融資風險管理政策》) and *Anti-money laundering work management procedures of Weihai City Commercial Bank Co., Ltd.* (《威海市商業銀行反洗錢工作管理程序》) have enumerated the responsibilities of the Board of Directors and the Legal and Compliance Department, as well as our various business departments and branches and sub-branches at all levels. The Legal and Compliance Department at our headquarters takes the lead on anti-money laundering work, and is primarily responsible for leading the formulation of relevant internal rules, procedures and the construction of our bank-wide anti-money laundering system, as well as assisting relevant anti-money laundering administrative authority or its detached offices in conducting anti-money laundering investigation.

We have developed internal policies and procedures with respect to anti-money laundering which are primarily relating to customer identification, transaction record keeping, suspected terrorism financing activities, anti-money laundering risk classification, and large and suspicious transaction reporting. In addition, we provide frequent training to our employees to assist them to understand the latest development about anti-money laundering laws.

We have developed an anti-money laundering system, which enables us to effectively identify, monitor and report anti-money laundering risks. We also optimize the system and improve our model for identifying suspicious transactions on a continuous basis in order to enhance our ability to report large-amount and suspicious transactions. Based on our internal rules and policies, we classify our customers into three levels based on the level of their money laundering risk. Through the anti-laundering reporting system, we undertake re-evaluation every six months for high risk exposed customers, we undertake re-evaluation every year for intermediate risk exposed customers, and we undertake re-evaluation every two years for low risk exposed customers. When the customers' risk changes, we may timely adjust the customer classification by levels of anti-laundering risks and report to the risk management department at different levels and the Legal and Compliance Department at our headquarters every six months.

INFORMATION TECHNOLOGY RISK MANAGEMENT

The banking industry in the PRC has become increasing competitive and we primarily compete with other commercial banks in the Shandong Province. Please see "Industry Overview — Competitive Landscape" for details of our main competitors in Shandong Province. Our competitors have begun to recognizes the necessity of digital transformation, taking digital transformation as their starting point to sharpening customers experience, and at the same time building up comprehensive high-quality financial services by employing various digital means, improving the capability of digital operation, and enhancing the ability to respond to emergencies and risks. With the continuously evolving regulations on the banking industry and tightened scrutiny from the regulators, this has caused the banking industry such as us to strengthen risk governance frameworks including information technology risk management. Information technology risks include operational risk, reputational risk, legal risk and other types of risks caused by natural factors, human errors, technical loopholes and management failure arising from our use of information technology. We have established Information Technology Committee and Information Technology Department at our headquarters which is responsible for managing our information technology risks. We identify, assess and monitor information technology risks through an effective risk management system. We strive to continuously improve our information technology infrastructure and our information technology management system in line with the national standards and regulatory requirements.

While we have disaster recovery, business continuity contingency plans, cybersecurity measures in place and other measures against information technology risks, any incident resulting in interruptions, delays, the loss or corruption of data or the cessation of systems can still occur. Please see "Risk Factors — Risk Relating to Our Business — The effective operation of our business is highly dependent on the proper functioning and improvement of our information technology system. Any security breaches and attacks against our systems and network, and any potentially resulting breach or failure to otherwise protect personal, confidential and proprietary information, could damage our reputation and negatively impact our business, as well as materially and adversely affect our financial condition and results of operations" for details of the relevant risks.

Information Security Management

We have established a complete organizational structure for information security which covers the security management of our staff, terminals, system construction, system operation and maintenance. To ensure the security of information technology, we have hired professionals to oversee our information security system and established a series of information security management measures to prevent any unauthorized online intrusion, attack, data leakage or third-party tampering on our information system. We also maintain security of our information system through various technologies such as encryption, anti-virus software and firewalls and we continuously update such technologies to enhance our information security. In addition, we have established a standardized information security risk monitoring and assessment mechanism, which requires us to carry out periodic internal and external information security risk assessments and enables us to deal with any red flag issues promptly.

We rely on the performance of our information technology systems for our business operations. As such, disruptions of our information technology may severely damage our business operations. We have established a self-assessment mechanism for information technology risk control which requires each of our departments to identify, register and evaluate the risks relating to information technology and take proper mitigation measures. We also closely monitor key risk indicators and issue risk alerts at the early stage. In addition, we conduct regular training for our employees to enhance their awareness on information security and further improve the implementation of our information technology risk management.

Business Continuity Management

As a critical part of our business continuity management measures, we have established a disaster recovery system consisting of an application-level intracity disaster backup center ("應用級同城災備中心") and a data-level offsite disaster backup center ("數據級異地災備中心") to ensure the continuity of our operations in the event of any interruption or breakdown of our host computer, storage, internet, database, intra-connection and application systems. We have also established detailed contingency plans regarding the potential breakdown of our information system to ensure the continuity of our operations. We conduct periodic disaster drills for business continuity for our important businesses.

Information Technology Audit

The Audit Department at our headquarters carries out comprehensive internal audits over our information technology risk management at least once every three years to safeguard the implementation of our various risk management measures effectively. The audit covers information technology governance, information technology risk management, security management and operation and maintenance. Through audit supervision, it strengthens the information technology risk management. Our Audit Department formulates, implements and adjusts internal audit plans, inspects and evaluates the comprehensiveness and effectiveness of our information technology and internal control systems and carries out internal audit work pursuant to the audit plans. We may also engage external institutions to conduct external audits on our hardware, software, files and data in order to further identify existing risks associated with our information technology system.

REPUTATIONAL RISK MANAGEMENT

Reputational risk refers to the risk of negative publicity and comments on us due to our operations, management, and other activities or external events. We take our reputation seriously and have established an effective reputational risk management mechanism to monitor, identify, report, control and assess our reputational risk, and at the same time manage our reputational risk emergency handling, and reduce to the extent possible any loss and negative impact we may suffer due to such incidents.

We have established an organizational framework for reputational risk management that covers headquarters-branch-sub-branch levels. The General Office at our headquarters is mainly responsible for undertaking management of overall reputational risks, including establishing a bank-wide reputational risk management system, formulating basic internal policies and developing relevant risk identification, evaluation, control, monitoring and reporting system. We have established a team comprising leaders from various departments at our headquarters to deal with the reputational risk incidents. We have also set up reputational risk incidents emergency response teams at our branches and sub-branches, so that the headquarters can be promptly informed upon the occurrence of material and urgent incidents and take appropriate actions accordingly.

In addition, we proactively utilize the press communications and other publication platforms to promote our positive image and corporate values such as those reflecting our continued fulfillment of social responsibilities. Meanwhile, we proactively collect, organize and analyze information in relation to our reputation through newspapers, television, online media and other channels.

STRATEGIC RISK MANAGEMENT

Strategic risks are risks that may arise if our present or future profitability, reputation and market position could be harmed by inappropriate strategic positioning, improper implementation of strategies or failure to make timely and necessary adjustments to strategies in line with changes in business environment.

In strict accordance with regulatory requirements, we have integrated strategic risks into the comprehensive risk management system and formulated *the Measures on Strategic Risk Management of Weihai City Commercial Bank Co., Ltd.* (《威海市商業銀行戰略風險管理辦法》). We define the strategic risk management framework and regulate the operational processes of strategic risk identification as well as control and reporting. We strengthen the strategic risk management by continuously improving the strategic risk management system and mechanism, and effectively prevent strategic risks while steadily promoting the implementation of strategic planning.

In addition, we dynamically monitor the changes of the external operational environment and the progress of the strategy, carefully identify the strategic planning risks and strategic execution risks, conduct in-depth analysis of the evaluation results, regularly report the strategic risk management and timely optimize and adjust the strategic planning.

COUNTRY RISK MANAGEMENT

Country risk is the risk of losses incurred in certain countries or regions due to local economic, political and social changes or local borrowers' inability and unwillingness to repay debts arising therefrom. It may be triggered by economic deterioration, political and social turmoil, nationalization or expropriation of property, government repudiation of foreign debts, foreign exchange control or currency depreciation in the country or region.

We formulate a country risk management system under the comprehensive risk management framework and prudently manage our country risk exposures. We pay close attention to country risk management during our business operations and we prohibit the business which is likely to be subject to high political risk or potential sanction risk imposed by the United States, EU and the United Nations etc. We conduct strict review on the background of the transaction parties and maintain high vigilance for businesses and transactions involving sensitive countries or regions.

INTERNAL AUDIT

We consider internal audit essential to the sustainable development of our business operations. Our Audit Department shall strictly follow the principles of independence and objectivity throughout our internal audit work. We have established an independent and vertical internal audit system that mainly comprises of the Board of Directors, the Audit Committee and the Audit Department at our headquarters. The Board of Directors undertakes ultimate responsibility to ensure the independence and effectiveness of our internal audit. The Audit Committee guides, evaluates and assesses our internal audit work while our Audit Department carries out internal auditing.

Our Audit Department formulates internal policies and annual audit plans based on regulatory requirements as well as our operation, management and business profile, and carries out audit work strictly in accordance with the annual audit plans after such plans are approved by the Board of Directors. We conduct both on-site inspections and off-site monitoring during routine audits on various departments and their operational and management activities. We also conduct audits on our exposures to various risks such as credit risk, market risk, operational risk and information technology risk. For the issues or deficiencies identified in audits, the Audit Department gives timely notification to the relevant departments and advises on the implementation of effective rectification measures.

RISK MANAGEMENT IN RELATION TO TONGDA FINANCIAL LEASING CO.

We manage risk management work of Tongda Financial Leasing Co. in accordance with relevant PRC laws and regulations, including *The Guidance on Consolidated Management and Supervision of Commercial Banks* (《商業銀行併表管理與監管指引》). Tongda Financial Leasing Co. is required to comply with group-wide policies and procedures in managing its credit risks, liquidity risks and operational risks.

According to relevant PRC laws and regulations, we conduct regular review on key regulatory risk indicators on group-wide basis, including the operation results, capital adequacy and risk exposure of Tongda Financial Leasing Co., and have the right to make decision on relevant factors concerning key regulatory risk indicators by exercising the shareholder's rights. During the Track Record Period and up to the Latest Practicable Date, we have not received any penalty from regulatory authorities or regulatory examinations in relation to risk management of Tongda Financial Leasing Co., which had material and adverse effect to our business operation and financial results.

CONNECTED TRANSACTIONS

Upon Listing, the transactions we have entered into with our connected persons (as defined in the Listing Rules) will constitute connected transactions for us under Chapter 14A of the Listing Rules. We expect such transactions will continue following the Listing, thereby constituting continuing connected transactions under the Listing Rules.

CONNECTED PERSONS

The entities, which will be our connected persons upon Listing for the purposes of the Listing Rules, mainly include:

Name	Connected relationship
Shandong Hi-Speed Group Company and its associates including but not limited to:	As of the Latest Practicable Date, Shandong Hi-Speed Group Company, a controlling shareholder, held 58.54% equity interests in our Bank. Shandong Hi-Speed Group Company will continue to be a controlling shareholder of our Bank following the Listing and therefore will become a connected person of our Bank.
Shandong Hi-Speed	As of the Latest Practicable Date, Shandong Hi-Speed was owned as to 70.91% by Shandong Hi-Speed Group Company. As such, Shandong Hi-Speed is an associate of Shandong Hi-Speed Group Company and will become a connected person of our Bank following the Listing.
China Shandong Hi-Speed Financial Group Co., Ltd.	As of the Latest Practicable Date, China Shandong Hi-Speed Financial Group Co., Ltd. was indirectly owned as to 43.42% by Shandong Hi-Speed Group Company. As such, China Shandong Hi-Speed Financial Group Co., Ltd. is an associate of Shandong Hi-Speed Group Company and will become a connected person of our Bank following the Listing.

Name	Connected relationship
Shandong Hi-Speed Global Financial Leasing Co., Ltd.	As of the Latest Practicable Date, Shandong Hi-Speed Global Financial Leasing Co., Ltd. was indirectly owned as to 60% by Shandong Hi-Speed Group Company. As such, Shandong Hi-Speed Global Financial Leasing Co., Ltd. is an associate of Shandong Hi-Speed Group Company and will become a connected person of our Bank following the Listing.
Shandong Hi-Speed Qingdao Jiaye Asset Management Co., Ltd. (山東高速青島嘉業資產管理有限公司) ("**Jiaye Asset Management**")	As of the Latest Practicable Date, Jiaye Asset Management was an indirect wholly-owned subsidiary of Shandong Hi-Speed Group Company. As such, Jiaye Asset Management is an associate of Shandong Hi-Speed Group Company and will become a connected person of our Bank following the Listing.
Associates of Qilu Transportation[(1)] including but not limited to:	
Qilu Transportation Investment Co., Ltd.	As of the Latest Practicable Date, Qilu Transportation Investment Co., Ltd. was an indirect wholly-owned subsidiary of Qilu Transportation (which, upon completion of the Joint Reorganisation, will be merged with Shandong Hi-Speed Group Company). As such, Qilu Transportation Investment Co., Ltd. will be an associate of Shandong Hi-Speed Group Company upon completion of the Joint Reorganisation and will become a connected person of our Bank following the Listing.

Note:

1. Upon completion of the Joint Reorganization, Qilu Transportation will be dissolved and merged into Shandong Hi-Speed Group Company by way of merger by absorption under PRC laws. Among others, subsidiaries and equity interests of Qilu Transportation will be transferred to Shandong Hi-Speed Group Company. Accordingly, the associates of Qilu Transportation will become associates of Shandong Hi-Speed Group and continue to be connected person(s) of our Bank upon completion of the Joint Reorganisation. Please refer to the section headed "Our History and Development" of this prospectus for details of the Joint Reorganization.

Name	Connected relationship
Shandong New Beiyang Information Technology Co., Ltd.	As of the Latest Practicable Date, Shandong New Beiyang Information Technology Co., Ltd. held 31.82% equity interests in Tongda Financial Leasing Co., Shandong New Beiyang Information Technology Co., Ltd. will continue to be a substantial shareholder of Tongda Financial Leasing Co. following the Listing and therefore will become a connected person of our Bank.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Bank is a commercial bank established in the PRC and regulated by the CBIRC and the PBoC. Our Bank provides commercial banking services and products in our ordinary and usual course of business to members of the public in the PRC, which include our connected persons (such as Directors, Supervisors, president, Controlling Shareholder, substantial Shareholders and/or their respective associates). Set forth below are details of such connected transactions between us and our connected persons. These transactions are entered into on normal commercial terms (or commercial terms that are better to us) in the ordinary and usual course of our business, and thus are fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

We also enter into certain non-banking transactions with our connected persons and/or their respective associates from time to time in our ordinary and usual course of business (such as leasing arrangements) on normal commercial terms (or commercial terms that are better to us) and which are expected to constitute de minimis transactions under Chapter 14A of the Listing Rules. The transactions contemplated under those arrangements constitute continuing connected transactions of our Bank which are fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(i) Commercial banking services and products provided in the ordinary and usual course of business — Loans and other credit facilities to connected persons

We extend loans and other credit facilities (including but not limited to short-term loans, medium- and long-term loans, bill discounting, mortgages, credit cards, subscription of bonds and guarantee) in the ordinary and usual course of business to certain of our connected persons, including our Directors, Supervisors, president, Controlling Shareholder, substantial Shareholders and/or their respective associates, on normal commercial terms (or commercial terms that are better to us) with reference to prevailing market interest rates. We expect that we will continue to provide loans and other credit facilities to our connected persons following the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

The above loans and other credit facilities provided by us to our connected persons are in the ordinary and usual course of our business and on normal commercial terms (or commercial terms that are better to us) with reference to prevailing market interest rates. Therefore, these transactions will be fully exempt continuing connected transactions under Rule 14A.87(1) of the Listing Rules, namely financial assistance provided by us in our ordinary and usual course of business to connected persons on normal commercial terms (or commercial terms that are better to us), and thus will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(ii) Commercial banking services and products provided in the ordinary and usual course of business — Deposits taking and guarantees from connected persons

We take deposits from certain of our connected persons and also receive guarantees provided by certain of our connected persons, including our Directors, Supervisors, president, Controlling Shareholder, substantial Shareholders and/or their respective associates, in relation to loans and other credit facilities extended by us to our customers in the ordinary and usual course of business at normal interest rates and on normal commercial terms (or commercial terms that are better to us). We expect that our connected persons will continue to place deposits with us and/or provide guarantees in relation to loans and other credit facilities extended by us to our customers following the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

The deposits placed by our connected persons are on normal commercial terms (or commercial terms that are better to us) with reference to prevailing market interest rates and not secured by our assets. The guarantees are also provided to us by our connected persons on normal commercial terms. 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 or guarantees on normal commercial terms (or commercial terms that are better to us) and not secured by our assets, and thus will be fully exempt from all disclosure, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(iii) Commercial banking services and products provided in the ordinary and usual course of business — Other banking services and products provided to connected persons

We provide a wide range of commercial banking services and products (mainly including settlement services, bank card services, banking acceptance bill service, agency service and wealth management service) to certain of our connected persons, including our Directors, Supervisors, president, Controlling Shareholder, substantial Shareholders and/or their respective associates, in the ordinary and usual course of business at normal rates and on normal commercial terms (or commercial terms that are better to us). We expect that we will continue to provide aforesaid banking services and products to our connected persons following the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

Such transactions are in the ordinary and usual course of our business and on normal commercial terms (or commercial terms that are better to us). As the highest applicable percentage ratios of the above transactions are expected to be less than 0.1%, these transactions are expected to constitute de minimis transactions under Chapter 14A of the Listing Rules. Therefore, these transactions will be fully exempt continuing connected transactions under Rule 14A.76(1) of the Listing Rules and fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(iv) Property leasing from connected persons

Our Bank entered into a property leasing agreement with Jiaye Asset Management, an indirect wholly-owned subsidiary of Shandong Hi-Speed Group Company, pursuant to which Jiaye Asset Management leased a property located in Qingdao, Shandong Province, the PRC, to our Bank as its office space with a leasing term from May 1, 2018 to April 30, 2023 and at an annual rent of RMB2,233,088.

The above property leasing agreement was negotiated on arm's length basis and was conducted on normal commercial terms. As the highest applicable percentage ratios of the above transactions is expected to be, on an annual basis, less than 0.1%, the transactions contemplated under the above property leasing agreement constitute de minimis transactions, and therefore are fully exempt from all disclosure, annual review and shareholders' approval requirements pursuant to Rule 14A.76(1) of the Listing Rules.

(v) Trademark licensing

Our Bank entered into a trademark licensing agreement with Shandong Hi-Speed, pursuant to which Shandong Hi-Speed has transferred, free of any royalty or other payments, to our Bank, the right to use a trademark for the period from January 1, 2019 to December 31, 2021. As the right to use the abovementioned trademark is granted to our Bank on a royalty-free basis, the highest applicable percentage ratios of the above transaction is expected to be, on an annual basis, less than 0.1%. The transactions contemplated under the above trademark leasing agreement constitute de minimis transactions, and therefore are fully exempt from all disclosure, annual review and shareholders' approval requirements pursuant to Rule 14A.76(1) of the Listing Rules.

OVERVIEW

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Shandong Hi-Speed Group Company will be interested in 2,910,381,485 Shares in aggregate, representing 49.76% of the enlarged issued share capital of our Bank and will continue to be our Controlling Shareholder upon the Listing.

Shandong Hi-Speed Group Company is directly owned by the Shandong SASAC, Shandong Guohui Investment Co., Ltd. (山東國惠投資有限公司) (a wholly-owned subsidiary of Shandong SASAC) and Shandong Council for Social Security Fund (山東省社會保障基金理事會) as to 70%, 20% and 10% respectively.

According to the Reorganisation Plan, Qilu Transportation will be dissolved and merged into Shandong Hi-Speed Group Company by way of merger by absorption under PRC laws. On 7 August 2020, Qilu Transportation transferred its Shares (being 566,114,163 Shares, representing approximately 11.39% of total issued share capital of the Bank as of the Latest Practicable Date) to Shandong Hi-Speed Group Company pursuant to the Joint Reorganisation. As of the Latest Practicable Date, the Joint Reorganisation (apart from the transfer of Shares from Qilu Transportation to Shandong Hi-Speed Group Company) was still undergoing and yet to be completed. Pursuant to the Reorganisation Plan, among others, businesses, subsidiaries and equity interests of Qilu Transportation will be transferred to Shandong Hi-Speed Group Company. Please refer to the section headed "Our History and Development" of this prospectus for details of the Joint Reorganisation.

BUSINESS DELINEATION BETWEEN US, SHANDONG HI-SPEED GROUP COMPANY AND QILU TRANSPORTATION

Business of Our Bank

We operate as an independent commercial bank. Our principal business lines include corporate banking, retail banking, and financial markets. We also engage in the business of financial leasing through Tongda Financial Leasing Co., our non-wholly owned subsidiary. For the year ended 31 December 2019, and for the three months ended March 31, 2020, the operating income and net profit of Tongda Financial Leasing Co. accounted for approximately 10.6% and 15.7%, and 10.9% and 22.2%, of our total operating income and net profit, respectively. Our businesses, including our commercial banking and financial leasing businesses, are mainly regulated by the CBIRC.

Business of Shandong Hi-Speed Group

The Shandong Hi-Speed Group is principally engaged in the investment, construction, operation and management and integrated development of transportation infrastructure and smart transportation, and provision of logistics and related ancillary services. It is also engaged in certain financial businesses including, among others, (i) microfinancing; (ii) financial leasing; and (iii) money lending (collectively, the "**Shandong Hi-Speed Relevant Business**"), which may to a certain extent be similar to the businesses of our Bank. We believe there is no material competition between the Shandong Hi-Speed Relevant Business and our Bank.

Relevant Interests Held by Shandong Hi-Speed Group Company in the Shandong Hi-Speed Relevant Business

The interests held by Shandong Hi-Speed Group Company in the key operating entities of the Shandong Hi-Speed Relevant Business as of the Latest Practicable Date are set out as follows:

Name of Entity	**Percentage of Equity Interest Held/Controlled**	**Nature and Geographical Region Focus of Principal Businesses**
Shandong Hi-Speed Global Financial Leasing Co., Ltd. (山東高速環球融資租賃有限公司) ("**SDHS Global**")*(Note 1)*	60%	financial leasing, including sale and leaseback, direct leasing, sub-leasing and factoring, focusing in Shandong Province
Shandong Hi-Speed (Hong Kong) Global Financial Leasing Co., Ltd. (山東高速(香港)環球融資租賃有限公司) ("**SDHS (HK) Global**")*(Note 1)*	60%	financial leasing of vessel in Hong Kong
Zhongqiao Antai Financial Leasing Co., Ltd. (中僑安泰融資租賃有限公司) ("**Zhongqiao Antai**")*(Note 2)*	*(Note 2)*	financial leasing, onshore and offshore purchase of lease assets, leasing transaction consulting and relevant factoring business, focusing in Shandong Province
Haisheng International Financial Leasing Co., Ltd. (海晟國際融資租賃有限公司)*(Note 3)* ("**Haisheng Financial Leasing**")	*(Note 3)*	financial leasing, onshore and offshore purchase of leased assets, leasing transaction consultation and guarantee, focusing in Shandong Province
China Shandong Hi-Speed Financial Group Co., Ltd.*(Note 4)* (中國山東高速金融集團有限公司) and its subsidiaries (collectively, the "**China SDHS Financial Group**")	43.42%	financial investment, asset management, financial leasing, asset trading platform operation, money lending, financial technology and related financial services, focusing in Mainland China and Hong Kong
Jinan City Central District Hairong Microfinance Co., Ltd. (濟南市市中區海融小額貸款有限公司)*(Note 5)* ("**Hairong Microfinance Company**")	*(Note 5)*	microfinancing in the urban area of Jinan City, Shandong Province
Shandong Feicheng Rural Commercial Bank Co., Ltd. (山東肥城農村商業銀行股份有限公司) ("**Feicheng Bank**")*(Note 6)*	12.44%	commercial banking in Feicheng District, Tai'an City, Shandong Province

Notes:

1. As at the Latest Practicable Date, SDHS (HK) Global was a wholly-owned subsidiary of SDHS Global, which was in turn wholly-owned by Shandong Expressway (BVI) International Holdings Limited (山東高速(BVI)國際控股有限公司). Shandong Expressway (BVI) International Holdings Limited is owned as to 60% by Shandong Hi-Speed Group Company and 40% by China Shandong Hi-Speed Financial Group Co., Ltd.

2. As at the Latest Practicable Date, Zhongqiao Antai was owned as to 75% by Shandong Expressway Investment Holdings Co., Ltd. (山東高速投資控股有限公司), a wholly-owned subsidiary of Shandong Hi-Speed Group Company and owned as to 25% by Sino Asset Financial Leasing (HK) Limited (中僑融資租賃(香港)有限公司), a wholly owned subsidiary of Shandong Hi-Speed Group Company.

3. As at the Latest Practicable Date, Haisheng Financial Leasing was owned as to 34.88% by Shandong Ocean Financial Holdings Co., Ltd. (山東海洋金融控股有限公司), a wholly-owned subsidiary of Shandong Ocean Group Co., Ltd., which was in turn owned as to 20.1% by Shandong Hi-Speed Group Company.

4. China Shandong Hi-Speed Financial Group Co., Ltd. is a company listed on the Stock Exchange (stock code: 412). The financial leasing subsidiaries of the China SDHS Financial Group include Shangao (Shenzhen) Investment Co., Ltd. (山高(深圳)投資有限公司), Shangao Financial Leasing (Shanghai) Co., Ltd. (山高融資租賃(上海)有限公司), Shangao International Financial Leasing (Shenzhen) Co., Ltd. (山高國際融資租賃(深圳)有限公司) and Shangao Financial Leasing (Beijing) Co., Ltd. (山高融資租賃(北京)有限公司).

5. As at the Latest Practicable Date, Hairong Microfinance Company was owned as to in total 63.75% by Shandong Ocean Group Co., Ltd. (山東海洋集團有限公司), which was in turn owned as to 20.1% by Shandong Hi-Speed Group Company.

6. As at the Latest Practicable Date, Feicheng Bank was owned as to 12.44% by Shandong Hi-Speed Group Company. Pursuant to an entrustment agreement in relation to the exercise of shareholders' rights between Shandong Hi-Speed Group Company and Shandong Rural Credit Cooperative Association (山東省農村信用社聯合社), Shandong Hi-Speed Group Company has, in accordance with the request from the people's government of Shandong Province, entrusted most of its shareholders' rights attaching to its shares of Feicheng Bank to Shandong Rural Credit Cooperative Association. Shandong Hi-Speed Group Company has retained, among others, the right to income and the right to disposal regarding such shares.

Microfinancing Business

While the microfinancing business operated by Hairong Microfinance Company may to a certain extent overlap with the business of our Bank, our Directors are of the view that there is no material competition between such business of Hairong Microfinance Company and the commercial banking of the Bank.

The following sets forth certain key financial information of Hairong Microfinance Company and our Bank, respectively, as of/for the year ended December 31, 2019:

	Hairong Microfinance Company	Our Bank
	(RMB'000)	(RMB'000)
Total asset	274,929	213,050,731
Operating income	29,867	4,426,547
Gross profit/profit before tax	15,886	1,493,705
Net profit	9,648	1,283,882

Different Scope and Focus of Business

The scope of the financing business of Hairong Microfinance Company and our Bank are different. Under the relevant PRC regulations, the scope of business of microfinance companies, such as Hairong Microfinance Company, is generally limited to the provision of micro-loans to local customers and small and micro-enterprises for personal consumption and business operation and does not include (i) other types of loans such as residential mortgage (which accounted for more than 40% of the personal loans offered by our Bank as at December 31, 2019 and March 31, 2020 respectively) and credit card balances and (ii) other banking services (including deposit taking and wealth management).

Hairong Microfinance Company focuses in the provision of micro-loans to sole proprietors and small and micro-enterprises in Jinan City area, while the majority of our corporate loan customers are state-owned and private institutions and enterprises located or otherwise having their primary operations in Shandong Province. All the micro-loans provided by Hairong Microfinance Company to their customers are short-term loans with a maturity of one year or less, and the majority of its loans are with a maturity of 6 months or less. On the other hand, the loans provided by our Bank comprises both short-term and medium- and long-term loans (i.e. loans which mature in more than one year). The majority of the personal loans extended by our Bank (except for credit card balances) have terms of more than one year, amongst which the personal residential loans generally have terms longer than five years. For corporate loans, we mainly provide our corporate banking customers with working capital loans and fixed asset loans. Our working capital loans include short-term loans due within one year and medium-term loans due in one to three years, and our fixed assets loans generally have maturities between one to 10 years, and are available for periods of up to 20 years subject to customers' needs. Medium- and long-term loans accounted for 47.0% and 53.9% of our corporate loans as of December 31, 2019 and March 31, 2020, respectively. Corporate loans were the largest component of our loan portfolio during the Track Record Period, accounting for 68.7% and 68.3% of our total loans to customers as of December 31, 2019 and March 31, 2020, respectively.

Apart from the aforementioned differences in the types and terms of loans offered, the scope of business of our Bank as a commercial bank is much wider as we are able to provide both retail and corporate banking services, including deposit taking, loans extension, wealth management, instruments acceptance and discount and issuance of financial bonds to individuals and corporate customers of different scale. Our Bank focuses in serving high-end corporate banking customers, which primarily include government agencies, state-owned enterprises, public institutions and industrial and commercial enterprises in Shandong Province and Tianjin Municipality.

Geographical Coverage

The geographical coverage of Hairong Microfinance Company and our Bank are not the same. As of December 31, 2019, Hairong Microfinance Company has one single outlet in Jinan City, Shandong Province. On the other hand, as of 31 March, 2020, our Bank has an extensive branch network consisting 119 outlets in total in Shandong Province and Tianjin Municipality, including 2 branches and 12 sub-branches in Jinan region, Shandong Province.

Different Source of Funding

The sources of funding for Hairong Microfinance Company is different from our Bank. In particular, the funding of Hairong Microfinance Company is largely limited to its shareholders' contribution as Hairong Microfinance Company is not permitted to take deposits. On the other hand, our Bank, as a financial institution, has a wider source of funding, including retail and corporate customer deposits, which has been our primary source of funding.

Conflict of Interest Management regarding the Microfinance Business

As of the Latest Practicable Date, Shandong Hi-Speed Group Company held only an indirect minority equity interest in Hairong Microfinance Company. Shandong Hi-Speed Group Company is not involved in the day-to-day business operations of Hairong Microfinance Company and there is no overlapping of directors and/or senior management between our Bank and Hairong Microfinance Company.

Financial Leasing Business

While the financial leasing business operated by SDHS Global, SDHS (HK) Global, Zhongqiao Antai, Haisheng Financial Leasing (collectively, the "**SDHS Financial Leasing Companies**") and China SDHS Financial Group may to a certain extent overlap with the business of Tongda Financial Leasing Co., our non-wholly owned subsidiary, our Directors are of the view that there is no material competition between the financial leasing business of such companies and that of our Bank.

SDHS Financial Leasing Companies and China SDHS Financial Group

SDHS Financial Leasing Companies

The following sets forth certain key financial information of the SDHS Financial Leasing Companies, Tongda Financial Leasing Co. and our Bank, respectively, as of/for the year ended December 31, 2019:

	SDHS Global	SDHS (HK) Global	Zhongqiao Antai	Haisheng Financial Leasing	Tongda Financial Leasing Co.	Our Bank
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Total asset	10,148,077	46,577	3,836,367	1,033,092	13,753,000	213,050,731
Operating income	703,855	209,221	214,044	69,469	522,733	4,426,547
Gross profit/profit before tax	247,458	20,894	32,041	8,671	319,967	1,493,705
Net profit	172,446	17,446	6,642	6,068	239,779	1,283,882

China SDHS Financial Group

China SDHS Financial Group is listed on the Stock Exchange (stock code: 412). As of the Latest Practicable Date, Shandong Hi-Speed Group Company was in aggregate interested in 43.42% of China SDHS Financial Group. China SDHS Financial Group acts as an investment holding company and its subsidiaries principally engage in various kinds of financial services, including, among others, financial leasing and money lending.

The financial leasing segment of China SDHS Financial Group engages primarily in the direct financial leasing, advisory services and asset trading platform. As disclosed in the annual results announcement of China SDHS Financial Group for the year ended December 31, 2019, the segment assets of its financial leasing is approximately HK$4,622,740,000; and the financial leasing business recorded a loss of approximately HK$387,792,000 during the year ended December 31, 2019.

Different Regulatory System

Tongda Financial Leasing Co. (on the one hand) and the SDHS Financial Leasing Companies and the financial leasing subsidiaries of China SDHS Financial Group (on the other hand) are different categories of financial leasing companies subject to different regulatory regimes:

- Tongda Financial Leasing Co., as a non-bank financial institution, is a financial leasing company subject to the approval and regulation of CBIRC;

- the SDHS Financial Leasing Companies (excluding SDHS (HK) Global) and the financial leasing subsidiaries of China SDHS Financial Group are financial leasing companies in the PRC subject to the rules promulgated by the CBIRC and regulation of provincial-level financial regulatory authorities; and

- SDHS (HK) Global is incorporated in Hong Kong and subject to the relevant laws and regulations of Hong Kong.

The PRC regulatory requirements for Tongda Financial Leasing Co. (on the one hand) and the SDHS Financial Leasing Companies (excluding SDHS (HK) Global) and the financial leasing subsidiaries of China SDHS Financial Group (on the other hand) are mainly different in terms of sources of funding and capital adequacy requirements, leverage ratio and minimum registered capital. In particular, Tongda Financial Leasing Co. can finance its businesses in the interbank lending market at a lower financing cost and with diverse sources of funding, while the SDHS Financial Leasing Companies (excluding SDHS (HK) Global) and the financial leasing subsidiaries of China SDHS Financial Group are not allowed to finance their businesses by deposits or interbank lending without prior approvals from the relevant regulatory authorities.

Different Focus of Sectors

The industry sector focuses of SDHS Financial Leasing Companies are generally different from those of Tongda Financial Leasing Co. For the year ended December 31, 2019, and the three months ended March 31, 2020, Tongda Financial Leasing Co. mainly focused on the sectors of (i) public utilities; (ii) transportation and logistics; and (iii) energy conservation and environmental protection. The investments in such sectors by Tongda Financial Leasing Co. accounted for approximately 91.8% and 86.7% of its total amount of investments for the year ended December 31, 2019 and the three months ended March 31, 2020, respectively. In contrast, the SDHS Financial Leasing Companies generally focus on different industry sectors. For example, SDHS Global focused on real estate and high-end manufacturing; SDHS (HK) Global focused on shipping; and Zhongqiao Antai focused on manufacturing and real estate.

In addition, the financial leasing business of China SDHS Financial Group and that of ours are operated under different visions and strategies. China SDHS Financial Group intends to capitalize the development opportunities brought by national policies regarding, among others, the development of Guangdong-Hong Kong-Macao Greater Bay Area, the "Belt and Road" Initiative, the transformation and upgrade of domestic traditional industries and the development of emerging industries. In contrast, our Bank established Tongda Financial Leasing Co. as part of our strategy to expand our business operation outside Shandong Province, broaden our services and realize synergy between our commercial banking and financial leasing businesses.

Sizable Market for Financial Leasing Business

The financial leasing market is sizable with a large number of market participants. Neither we nor the SDHS Financial Leasing Companies and China SDHS Financial Group account for any significant share in the huge market that could create direct competition between Tongda Financial Leasing Co. (on the one hand) and the SDHS Financial Leasing Companies and China SDHS Financial Group (on the other hand). We consider any potential competition between the SDHS Financial Leasing Companies and China SDHS Financial Group (on the one hand) and Tongda Financial Leasing Co. (on the other hand) to be of no difference from the competition between any independent third parties and Tongda Financial Leasing Co.

Conflict of Interest Management regarding the Financial Leasing Business

Shandong Hi-Speed Group Company is not involved in the day-to-day business operations of the SDHS Financial Leasing Companies, China SDHS Financial Group or Tongda Financial Leasing Co., and there is no overlapping of directors and/or senior management between the Bank and Tongda Financial Leasing Co. (on the one hand) and the SDHS Financial Leasing Companies and China SDHS Financial Group (on the other hand), save for Mr. Li Hang's (a non-executive Director) service as a non-executive director, the chairman of the board of China Innovative Finance Group Limited (currently known as China Shandong Hi-Speed Financial Group Co., Ltd.) from October 2016 to May 2019, where he was responsible for the provision of strategic advice on its corporate development and was not involved in its and/or its financial leasing subsidiaries' daily operation and management.

Our Bank has a sufficient number of independent non-executive Directors, who have requisite knowledge, industry experience and expertise to advise on transactions involving conflict of interest. In the event that our independent non-executive Directors are required to review any conflict of interest matters, additional independent consultants would also be engaged to provide advice to the independent non-executive Directors where needed.

Money Lending Business

The money lending business operated by China SDHS Financial Group is different from the commercial banking business of our Bank. Our commercial banking business, which includes extending loans and other credit facilities to customers as a commercial bank in the PRC, is primarily regulated by the CBIRC. The money lending business of China SDHS Financial Group in the capacity of a money lender in Hong Kong, is regulated by the relevant regulatory authorities in Hong Kong. Also, as the money lending business of China SDHS Financial Group is operated in Hong Kong while our commercial banking business is operated in the PRC, there is a clean delineation of geographical presence where the relevant businesses are operated.

Commercial Banking Business

While the commercial banking business operated by Feicheng Bank may to a certain extent overlap with the business of our Bank, our Directors are of the view that there is no material competition between such commercial business of Feicheng Bank and the commercial banking of the Bank.

The following sets forth certain key financial information of the Feicheng Bank and our Bank, respectively, as of/for the year ended December 31, 2019:

	Feicheng Bank	Our Bank
	(RMB'000)	(RMB'000)
Total asset	21,418,456	213,050,731
Operating income	865,591	4,426,547
Profit before tax	104,172	1,493,705
Net profit	77,332	1,283,882

Regulatory Requirements and Conflict of Interest Management regarding the Commercial Banking Business

Commercial banks (including city commercial banks and rural commercial banks) in the PRC are principally regulated by the CBIRC and the PBoC and are subject to applicable laws and regulations including Provisional Measures on Administration of Equities of Commercial Banks (商業銀行股權管理暫行辦法) and Measures on Performance Appraisal for Directors of Commercial Banks (Trial Implementation) (商業銀行董事履職評價辦法(試行)). Pursuant to the relevant laws and regulations, key shareholders of commercial banks (being shareholders with 5% or more of the voting interests) shall not interfere or influence the decision making and management of the board and the senior management. On the other hand, directors and senior management of commercial banks shall not hold concurrent positions at financial institutions where conflict of interests may arise.

As at the Latest Practicable Date, Shandong Hi-Speed held a minority equity interest of 12.44% in Feicheng Bank. Shandong Hi-Speed is not involved in the day-to-day business operation of Feicheng Bank and there is no overlapping of directors and/or senior management between our Bank and Feicheng Bank. Our Bank has a sufficient number of independent non-executive Directors, who have requisite knowledge, industry experience and expertise to advise on transactions involving conflict of interest. In the event that our independent non-executive Directors are required to review any conflict of interest matters, additional independent consultants would also be engaged to provide advice to the independent non-executive Directors where needed.

Geographical Coverage

The geographical coverage of Feicheng Bank and our Bank are not the same. As of December 31, 2019, Feicheng Bank has a branch network consisting 41 outlets in Feicheng District, Tai'an City, Shandong Province and have no business operations outside of Feicheng District. On the other hand, as of March 31, 2020, our Bank has an extensive branch network consisting 119 outlets in total in Shandong Province and Tianjin Municipality. Among others, our Bank only has a single branch in Tai'an City, of which its operating income accounted for approximately 1.3% and 1% of the operating income of our Bank for the year ended December 31, 2019 and for the three months ended March 31, 2020.

Different Customer Base

There are certain differences between the customer base of Feicheng Bank and our Bank. In relation to corporate banking, the customer of our Bank include both large and medium enterprises, such as large state-owned enterprises and listed companies engaging in manufacturing and leasing and commercial services industry; as well as micro and small enterprises engaging in, among others, manufacturing and leasing and commercial services industry. On the other hand, the corporate banking customers of Feicheng Bank primarily consist of small and micro enterprises engaging in agriculture sector and other rural industries in Feicheng District, Tai'an City, Shandong Province. The retail banking customers of Feicheng Bank primarily consist of customers from Feicheng District, Tai'an City, Shandong Province while the retail banking customers of our Bank are primarily from Weihai City, Shandong Province.

Sizable Market for Commercial Banking Business

The commercial banking market is sizable with considerable numbers of market participants. Neither we nor Feicheng Bank account for any significant share in the huge market that could create direct competition between Feicheng Bank and our Bank. We consider any potential competition between Feicheng Bank and our Bank to be of no difference from the competition between any independent third parties and our Bank.

Business of Qilu Transportation

Qilu Transportation is principally engaged in the investment and financing, construction and tolling of highway, bridges and other transportation infrastructure. It is also interested in certain financial business including, among others, (i) financial leasing; (ii) factoring and (iii) commercial banking (collectively, the "**Qilu Transportation Relevant Business**", together with the Shandong Hi-Speed Relevant Business, the "**Relevant Business**"), which may to a certain extent be similar to the businesses of the Bank.

Upon completion of the Joint Reorganisation, the businesses, subsidiaries and equity interests of Qilu Transportation, including the interests in the Qilu Transportation Relevant Business, will be transferred to Shandong Hi-Speed Group Company. We believe there will be no material competition between the Qilu Transportation Relevant Business and our Bank.

Relevant Interests Held by Qilu Transportation in the Qilu Transportation Relevant Business

The interests held by Qilu Transportation in the key operating entities of the Qilu Transportation Relevant Business as of the Latest Practicable Date are set out as follows:

Name of Entity	Percentage of Equity Interest Held/Controlled	Nature and Geographical Region Focus of Principal Businesses
Qilu Tongda International Financial Leasing Co., Ltd (齊魯通達國際融資租賃有限公司) ("**Qilu Tongda Financial Leasing**")*(Note 1)*	100%	financial leasing, regarding construction machinery, industrial equipment, high-end manufacturing in the PRC, including (but not limited to) Shandong Province, Henan Province, Hebei Province and Guangdong Province
Tonghui Chengtai Commercial Factoring (Tianjin) Co., Ltd. (通匯誠泰商業保理(天津)有限公司) ("**Tonghui Factoring**")*(Note 2)*	37%	factoring services in the PRC, including (but not limited to) Shandong Province, Anhui Province and Shanxi Province
Laishang Bank Co., Ltd. (萊商銀行股份有限公司) ("**Laishang Bank**")*(Note 3)*	20%	commercial banking focusing in Shandong Province

Notes:

1. As at the Latest Practicable Date, Qilu Tongda Financial Leasing was a wholly-owned subsidiary of Qilu Transportation.

2. As at the Latest Practicable Date, Tonghui Factoring was owned as to 37% by Shandong Tonghui Capital Investment Group Co., Ltd. (山東通匯資本投資集團有限公司), a wholly-owned subsidiary of Qilu Transportation.

3. As at the Latest Practicable Date, Laishang Bank was directly owned as to 20% by Qilu Transportation.

Financial Leasing Business

While the financial leasing business operated by Qilu Tongda Financial Leasing may to a certain extent overlap with the business of Tongda Financial Leasing Co., our non-wholly owned subsidiary, our Directors are of the view that there is no material competition between the financial leasing business of Qilu Tongda Financial Leasing and that of our Bank.

The following sets forth certain key financial information of Qilu Tongda Financial Leasing, Tongda Financial Leasing Co. and our Bank, respectively, as of/for the year ended December 31, 2019:

	Qilu Tongda Financial Leasing	Tongda Financial Leasing Co.	Our Bank
	(RMB'000)	(RMB'000)	(RMB'000)
Total asset	1,363,702	13,753,000	213,050,731
Operating income	60,732	522,733	4,426,547
Gross profit/profit before tax	22,651	319,967	1,493,705
Net profit	16,973	239,779	1,283,882

Different Regulatory System

Tongda Financial Leasing Co. and Qilu Tongda Financial Leasing are different categories of financial leasing companies subject to different regulatory regimes:

- Tongda Financial Leasing Co., as a non-bank financial institution, is a financial leasing company subject to the approval and regulation of CBIRC; and

- Qilu Tongda Financial Leasing is a financial leasing company in the PRC subject to the rules promulgated by the CBIRC and regulation of provincial-level financial regulatory authorities.

For details of the main differences in regulatory requirements for the two different regimes, please refer to "Business of Shandong Hi-Speed Group – Financial Leasing Business – Different Regulatory System" of this section.

Different Focus of Sectors

The industry sector focuses of Tongda Financial Leasing are generally different from those of Qilu Tongda Financial Leasing. For the year ended December 31, 2019 and the three months ended March 31, 2020, Tongda Financial Leasing Co. mainly focused on the sectors of (i) public utilities; (ii) transportation and logistics; and (iii) energy conservation and environmental protection. The investments in such sectors by Tongda Financial Leasing Co. accounted for approximately 91.8% and 86.7% of its total amount of investments for the year ended December 31, 2019 and the three months ended March 31, 2020, respectively. In contrast, Qilu Tongda Financial Leasing focused on the industry sectors of (i) construction machinery, (ii) industrial equipment; and (iii) high-end manufacturing.

Sizable Market for Financial Leasing Business

The financial leasing market is sizable with a large number of market participants. Neither we nor Qilu Tongda Financial Leasing account for any significant share in the huge market that could create direct competition between Qilu Tongda Financial Leasing and Tongda Financial Leasing Co. We consider any potential competition between Qilu Tongda Financial Leasing and Tongda Financial Leasing Co. to be of no difference from the competition between any independent third parties and Tongda Financial Leasing Co.

Conflict of Interest Management regarding the Financial Leasing Business

Qilu Transportation is not involved in the day-to-day business operations of Qilu Tongda Financial Leasing and there is no overlapping of directors and/or senior management between the Bank and Tongda Financial Leasing Co. (on the one hand) and Qilu Tongda Financial Leasing (on the other hand).

Our Bank has a sufficient number of independent non-executive Directors, who have requisite knowledge, industry experience and expertise to advise on transactions involving conflict of interest. In the event that our independent non-executive Directors are required to review any conflict of interest matters, additional independent consultants would also be engaged to provide advice to the independent non-executive Directors.

Factoring Business

While the factoring business operated by Tonghui Factoring may to a certain extent overlap with the business of our Bank, our Directors are of the view that there is no material competition between the factoring business of Tonghui Factoring and that of our Bank.

The following sets forth certain key financial information of Tonghui Factoring and our Bank, respectively, as of/for the year ended December 31, 2019:

	Tonghui Factoring	Our Bank
	(RMB'000)	(RMB'000)
Total asset	1,113,310	213,050,731
Operating income	116,499	4,426,547
Profit before tax	15,996	1,493,705
Net profit	12,282	1,283,882

Different Focus of Sectors

The industry sector focuses of Tonghui Factoring are generally different from those of our Bank. Our Bank provides factoring services as part of our supply chain finance services and trade finance services, focusing on customers from mainstream manufacturing sectors such as the pharmaceutical industry and chemical industry for our supply chain finance services, and the manufacturing industry and the wholesale and retail industries for our trade finance services, respectively. In contrast, Tonghui Factoring focuses on provision of factoring services to customers in the logistics and transportation industry, as well as the infrastructure and medical industry (including the trading of medical supplies, equipments and medicine).

Sizable Market for Factoring Business

The factoring business is sizable with a large number of market participants. Neither we nor Tonghui Factoring account for any significant share in the huge market that could create direct competition between Tonghui Factoring and our Bank. We consider any potential competition between Tonghui Factoring and our Bank to be of no difference from the competition between any independent third parties and our Bank.

Conflict of Interest Management regarding the Factoring Business

As of the Latest Practicable Date, Qilu Transportation held only an indirect minority equity interest in Tonghui Factoring. Qilu Transportation is not involved in the day-to-day business operations of Tonghui Factoring and there is no overlapping of directors and/or senior management between our Bank and Tonghui Factoring.

Commercial Banking Business

While the commercial banking business operated by Laishang Bank may to a certain extent overlap with the business of our Bank, our Directors are of the view that there is no material competition between such business of Laishang Bank and the commercial banking of the Bank.

The following sets forth certain key financial information of Laishang Bank and our Bank, respectively, as of/for the year ended December 31, 2019:

	Laishang Bank	Our Bank
	(RMB'000)	(RMB'000)
Total asset	134,028,089	213,050,731
Operating income	3,536,403	4,426,547
Profit before tax	671,456	1,493,705
Net profit	544,696	1,283,882

Regulatory Requirements and Conflict of Interest Management regarding the Commercial Banking Business

Commercial banks in the PRC are principally regulated by the CBIRC and the PBoC, and are subject to applicable laws and regulations including Provisional Measures on Administration of Equities of Commercial Banks (商業銀行股權管理暫行辦法) and Measures on Performance Appraisal for Directors of Commercial Banks (Trial Implementation) (商業銀行董事履職評價辦法(試行)). Pursuant to the relevant laws and regulations, key shareholders of commercial banks (being shareholders with 5% or more of the voting interests) shall not interfere or influence the decision making and management of the board and the senior management. On the other hand, directors and senior management of commercial banks shall not hold concurrent positions at financial institutions where conflict of interests may arise.

As at the Latest Practicable Date, Qilu Transportation held a minority equity interest of 20% in Laishang Bank. Qilu Transportation is not involved in the day-to-day business operations of Laishang Bank and there is no overlapping of directors and/or senior management between our Bank and Laishang Bank save for Mr. Wang Qixiang's (a non-executive Director) service as a non-executive director of Laishang Bank, where he is responsible for the provision of strategic advice on its corporate development and is not involved in its daily operation and management.

Our Bank has a sufficient number of independent non-executive Directors, who have requisite knowledge, industry experience and expertise to advise on transactions involving conflict of interest. In the event that our independent non-executive Directors are required to review any conflict of interest matters, additional independent consultants would also be engaged to provide advice to the independent non-executive Directors where needed.

Geographical Coverage

The geographical coverage of Laishang Bank and our Bank are not the same. As of December 31, 2019, Laishang Bank has a branch network consisting 104 outlets in Shandong Province and Jiangsu Province. In Shandong Province, Laishang Bank has, among others, 44 outlets in Jinan City and 17 outlets in Heze City. It has 14 outlets in Xuzhou, Jiangsu Province and has no outlet in Weihai City, Shandong Province. On the other hand, as of March 31, 2020, our Bank has an extensive branch network consisting 119 outlets in total in Shandong Province and Tianjin Municipality, in Shandong Province, our Bank has, among others, (i) the headquarters and 50 sub-branches in Weihai City; (ii) 2 branches and 12 sub-branches in Jinan region (of which their operating income accounted for approximately 16.4% and 10.8% of the operating income of our Bank for the year ended December 31, 2019 and for the three months ended March 31, 2020); and (iii) 1 branch in Heze City (of which its operating income accounted for approximately 0.6% and 0.9% of the operating income of our Bank for the year ended December 31, 2019 and for the three months ended March 31, 2020). Outside of Shandong Province, our Bank has 1 branch and 9 sub-branches in Tianjin Municipality.

Customer Base

There are certain differences between the customer base of Laishang Bank and our Bank. The corporate banking customers of Laishang Bank primarily consist of medium, small and micro enterprises in Jinan area, Shandong Province. Our Bank has a stable corporate banking customer base in Shandong Province and Tianjin Municipality, consisting primarily of government agencies, state-owned enterprises, public institutions and industrial and commercial enterprises in Shandong Province and Tianjin Municipality.

The retail banking customers of Laishang Bank primarily consist of customers from Jinan City and Heze City in Shandong Province, and the retail banking customers of our Bank are primarily from Weihai City, Shandong Province. For the year ended December 31, 2019 and the three months ended March 31, 2020, Laishang Bank focused on the provision of personal consumption loans to its retail banking customers, which accounted for 69.14% and 64.27% of its total personal loans as of December 31, 2019 and March 31, 2020, respectively. Our Bank focused on the provision of personal business loans to our retail banking customers during the same periods, which accounted for 44.3% and 43.3% of our total personal loans as of December 31, 2019 and March 31, 2020, respectively.

Sizable Market for Commercial Banking Business

The commercial banking market is sizable with considerable numbers of market participants. Neither we nor Laishang Bank account for any significant share in the huge market that could create direct competition between Laishang Bank and our Bank. We consider any potential competition between Laishang Bank and our Bank to be of no difference from the competition between any independent third parties and our Bank.

Business Relationship between Laishang Bank and our Bank

During the Track Record Period, our Bank and Laishang Bank have engaged in some financial investment business. As at the Latest Practicable Date, our Bank held two RMB100 million certificates of interbank deposit which are due on 7 December 2020 with Laishang Bank. Our Directors consider such business relationship between Laishang Bank and our Bank to be mutual and complementary, and the financial investments involved are conducted on normal commercial terms, in the ordinary course of business and not uncommon among PRC commercial banks.

Based on the above, under the relevant laws and regulations in the PRC, the commercial banking, financial leasing, money lending and factoring businesses are subject to different regulatory regimes and the commercial banking business is a highly regulated industry. The relevant enterprises which Shandong Hi-Speed Group Company and Qilu Transportation are currently respectively interested in and carrying out the Relevant Business are subject to the regulation of different regulatory authorities, operate independently from each other and, except for Laishang Bank and Feicheng Bank, are restricted by laws and regulations from engaging in commercial banking businesses.

As at the Latest Practicable Date, we were the only city commercial bank controlled by Shandong Hi-Speed Group Company. Apart from us and Feicheng Bank, a rural commercial bank which Shandong Hi-Speed Group Company held a minority interests of 12.44%, it was not a substantial shareholder of, and did not directly or indirectly control, any other commercial banks in the PRC. Upon completion of the Joint Reorganisation, Shandong Hi-Speed Group Company will acquire a minority interest of 20% in Laishang Bank and will not obtain control of it. Save as disclosed above, Shandong Hi-Speed Group Company has no license for conducting commercial banking business in the PRC. Accordingly, our Directors believe that currently, and upon completion of the Joint Reorganisation, there is no material competition between the Relevant Business and the business of our Bank.

To ensure that competition will not exist in the future, our Controlling Shareholder has provided certain non-competition undertakings in favor of our Bank, the details of which are described in "— Non-competition Undertakings" below.

As of the Latest Practicable Date, save as disclosed, none of our Controlling Shareholder, our Directors and their respective close associates is interested in any business which is, whether directly or indirectly, in competition with our businesses, which would require disclosure under Rule 8.10 of the Listing Rules.

Reasons for Non-inclusion of the Relevant Business

As (i) our business and the Relevant Business are different in nature, customer base and geographical coverage to a certain extent (including the different customer base and geographical coverage of Laishang Bank and Feicheng Bank on the one hand and our Bank on the other hand) and/or subject to different regulatory regimes as described above; (ii) we, as a commercial bank, are generally not permitted to invest in non-financial enterprises (being all enterprises apart from banks and non-bank financial institutions), including the financial leasing companies (融資租賃公司) under Shandong Hi-Speed Group Company, Qilu Tongda Financial Leasing, Hairong Microfinance Company and Tonghui Factoring pursuant to the relevant PRC laws and regulations; and (iii) Shandong Hi-Speed Group Company only held or will hold (upon completion of the Joint Reorganisation) minority interests in each of Feicheng Bank (12.44%) and Laishang Bank (20%) and, in view of their relatively dispersed shareholding structures, will not acquire direct or indirect control of them, we consider that it may not be practically feasible nor in the best interests of our Bank and our Shareholders as a whole to include the Relevant Business into our Group. In addition, Laishang Bank and Feicheng Bank have been carrying out their banking businesses independently, and major business decisions must be approved by their respective shareholders' general meetings. As Shandong Hi-Speed Group Company would not acquire more than 50% of the voting interests in each of Laishang Bank and Feicheng Bank, it would not be practically feasible to include the business of Laishang Bank and Feicheng Bank into our Group. For the differences between Tongda Financial Leasing Co. (as a non-bank financial institution on one hand) and the SDHS Financial Leasing Companies, the financial leasing subsidiaries of China SDHS Financial Group and Qilu Tongda Financial Leasing (as non-financial enterprises on the other hand), please refer to "Business of Shandong Hi-Speed Group — Financial Leasing Business — Different Regulatory System" of this section. Our Controlling Shareholder, Shandong Hi-Speed Group Company, does not intend to inject the Relevant Business into our Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our businesses independently from our Controlling Shareholder and its close associates after the Listing.

Management Independence

Our Board comprises five executive Directors, five non-executive Directors and five independent non-executive Directors. For details of our Directors and the members of our senior management, please see "Directors, Supervisors and Senior Management".

Among our Directors, three of them hold directorships and senior management roles in Shandong Hi-Speed Group, namely Mr. Li Hang (李航), Mr. Yi Jijun (伊繼軍) and Mr. WANG Qixiang (王啟祥). Set out below is a summary of the positions our Directors held in our Bank and Shandong Hi-Speed Group (if any) as of the Latest Practicable date and immediately upon Listing:

Name of Director	Position in our Bank	Position(s) in Shandong Hi-Speed Group
Mr. TAN Xianguo (譚先國)	Executive Director and chairman of the Board of Directors	N/A
Mr. MENG Dongxiao (孟東曉)	Executive Director and president of our Bank	N/A
Mr. ZHANG Renzhao (張仁釗)	Executive Director and vice president of our Bank	N/A
Mr. BI Qiubo (畢秋波)	Executive Director and secretary of the Board of Directors	N/A
Ms. TAO Zunjian (陶遵建)	Executive Director and chief accountant of our Bank (總會計師)	N/A
Mr. LI Hang (李航)	Non-executive Director	Director of Shandong Hi-Speed Group Company
Mr. WANG Song (王松)	Non-executive Director	N/A
Mr. SUN Chenglong (孫成龍)	Non-executive Director	N/A
Mr. YI Jijun (伊繼軍)	Non-executive Director	Director of Shandong Hi-Speed
Mr. WANG Qixiang (王啟祥)	Non-executive Director	Executive Officer of Shandong Hi-Speed Group Company
Mr. LIU Xue (劉學)	Independent non-executive Director	N/A
Mr. LU Qing (路清)	Independent non-executive Director	N/A
Mr. SUN Guomao (孫國茂)	Independent non-executive Director	N/A
Mr. ZHANG Guanghong (張廣鴻)	Independent non-executive Director	N/A
Mr. FAN Chi Chiu (范智超)	Independent non-executive Director	N/A

Other than Mr. Li Hang, Mr. Yi Jijun and Mr. Wang Qixiang, none of our Directors holds any directorship or senior management roles in the Shandong Hi-Speed Group. Since Mr. Li Hang, Mr. Yi Jijun and Mr. Wang Qixiang are our non-executive Directors, they will not be involved in the day-to-day management or affairs and operations of the businesses of our Group.

Our independent senior management team is currently led by a core management team comprising five persons, namely Mr. Tan Xianguo, Mr. Meng Dongxiao, Mr. Zhang Renzhao, Mr. Bi Qiubo and Ms. Tao Zunjian, all of whom are executive Directors and have served our Group for a number of years with substantive working experience in the field of banking. They form part of our core management team and have made material decisions in our business operation and project development independent from the Shandong Hi-Speed Group during the Track Record Period.

None of the other members of our senior management team has any relationship with the Shandong Hi-Speed Group. Therefore, there is no overlapping personnel between the senior management team of our Group and the Shandong Hi-Speed Group.

However, to achieve good corporate governance, our Bank has adopted the following corporate governance measures to manage the potential conflict of interest, if any, between our Group and the Shandong Hi-Speed Group and its close associates:

(a) our Directors will comply with the Articles of Association which require the interested Director not to vote (nor be counted in the quorum) on any Board resolution approving contract or arrangement or other proposal in which he/she or any of his/her close associate is materially interested;

(b) our Directors will (i) report any conflict or potential conflict of interest involving the Shandong Hi-Speed Group and its close associates to our independent non-executive Directors as soon as practicable upon becoming aware of such conflict; (ii) if required, convene a Board meeting to review and evaluate the implications and risk exposure of such conflict; and (iii) monitor any material irregular business activities. The conflicted Directors will be required to abstain from participating in the Board meetings where resolutions with material potential conflicts of interest are discussed; and

(c) our Nomination and Remuneration Committee will from time to time review the independence of our Directors with the Shandong Hi-Speed Group to ensure that our key management personnel are and will continue to be independent from and do not overlap with those of the Shandong Hi-Speed Group.

Our Directors consider that the management of our Group will be able to function independently from our Controlling Shareholder and its close associates, notwithstanding the abovementioned two overlapping Directors:

(a) twelve out of fifteen members of our Board, including all our executive Directors, will not hold any position in the Shandong Hi-Speed Group upon the Listing. Accordingly, a majority of the members of our Board are independent from Shandong Hi-Speed Group;

(b) none of the businesses of our Controlling Shareholder (other than our Group) competes, or is likely to compete, with our core business and therefore, the dual roles assumed by the two overlapping Directors in most cases will not affect the requisite degree of impartiality of our Directors in discharging their fiduciary duties owed to our Bank;

(c) each Director is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the interest of our Bank and must not allow any conflict between his/her duties as a director and his/her personal interests;

(d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting on any Board resolutions in respect of such transaction and shall not be counted in the quorum present at the relevant Board meeting;

(e) our daily management and operations are carried out by an experienced management team, which has substantial experience in the industry in which our Group is engaged, and will therefore be able to make business decisions that are in the best interests of our Group. We have the capabilities and personnel to perform all essential administrative functions, including finance, accounting, human resources, business management and information and technology on a standalone basis;

(f) we have five independent non-executive Directors, all of whom have been appointed to bring independent judgment to the decision-making process of our Board, and have the requisite knowledge, industry experience and expertise to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. Additional independent consultants would also be engaged to provide advice to the independent non-executive Directors where needed; and

(g) we have adopted corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholder and its close associates which would support our independent management. Please see "— Corporate Governance Measures" below for further information.

Based on the above, our Directors are satisfied that we are able to maintain management independence from the Controlling Shareholder and its close associates.

Operational Independence

We have full rights to make all decisions on, and to carry out, our own business operation independently from our Controlling Shareholder and its close associates and will continue to do so after the Listing. We have obtained relevant requisite qualifications and approvals for conducting commercial banking and financial leasing business in the PRC. We currently conduct banking and financial leasing business independently, with the autonomous right to formulate and implement operational decisions. We have sufficient funding, facilities and employees to operate our business independently from the Controlling Shareholder and its close associates.

Access to customers

We consider that we have a large and diversified base of customers that are unrelated to our Controlling Shareholder and/or its close associates.

Operational facilities

We have full rights to make all decisions on, and to carry out, our own business operation on the properties and facilities material to our business operations independently from our Controlling Shareholder and its close associates.

Administrative Capabilities

We have full rights to make all decisions on, and to carry out, all essential administrative functions of our Group independently from our Controlling Shareholder and its close associates. In particular, our Group will have its own staff to perform all essential administrative functions, such as finance and reporting, administration and operations, information technology, compliance and human resources functions, independently from our Controlling Shareholder and its close associates, and will be capable of generating its own business channels.

Employees

We confirm that, as of the Latest Practicable Date, our full-time employees were primarily introduced through social recruitment and on-campus recruitment. The main channels of recruitment include recruitment websites, newspaper advertisements, internal referrals, headhunter recommendation, etc.

Continuing connected transactions with our Controlling Shareholder

The section headed “Relationship with Connected Persons and Connected Transactions” sets out the continuing connected transactions between our Group and our Controlling Shareholder or its associates which will continue after the Listing. All such transactions are determined after arm’s length negotiations and by normal commercial teams. We expect that we will be able to maintain the aggregate amounts of the continuing connected transaction with our Controlling Shareholder or its close associates at a reasonable percentage with respect to our total revenues after the Listing. Accordingly, our Directors are of the view that such continuing connected transactions will not affect our operational independence as a whole.

Save for the continuing connected transactions set out in "Relationship with Connected Persons and Connected Transactions", our Directors do not expect that there will be any other transactions between our Group and our Controlling Shareholder or its close associates upon or shortly after the Listing.

Based on the above, our Directors are satisfied that we are able to maintain operational independence from the Controlling Shareholder and its close associates.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. We have our independent internal control and accounting systems and an independent financial department with a team of financial staff responsible for discharging the treasury function.

As of the Latest Practicable Date, there was no outstanding loan granted by our Controlling Shareholder or any of its close associates to us and there was no guarantee provided for our benefit by our Controlling Shareholder or any of its close associates. We have adequate internal resources to support our daily operations.

Based on the above, our Directors are satisfied that we are able to maintain financial independence from the Controlling Shareholder and its close associates.

NON-COMPETITION UNDERTAKINGS

To ensure that competition does not develop between our Group and our Controlling Shareholder, our Controlling Shareholder (the "**Covenantor**") provided certain non-competition undertakings (the "**Non-competition Undertakings**") in favor of our Bank on September 16, 2020, pursuant to which the Covenantor has, among other things, undertaken with our Bank that, save as disclosed in this prospectus, the Covenantor and its controlled non-listed enterprises (excluding our Bank, our subsidiary and our branch offices) (collectively, the "**Relevant Enterprises**") shall not engage in any business activities within the principal business carried on by our Bank, our subsidiary and our branch offices (the "**Restricted Business**").

The Covenantor has also undertaken that, in the event it (or the Relevant Enterprises) and the Bank participate in the same tender project relating to the Restricted Business, it shall grant, or shall procure the Relevant Enterprises to grant, a pre-emptive right to participate in any such tender project (the "**New Tender Project**") to our Bank in the following manner:

(i) as soon as the Covenanter becomes aware that our Bank, our subsidiary or branch office participates in the New Tender Project, it shall immediately issue a written notice to our Bank;

(ii) our Bank shall, within five Business Days from the receipt of such notice (the "**Offer Notice Period**"), notify the Covenanter in writing of any decision taken to pursue or decline the New Tender Project;

(iii) the Covenanter may, at its absolute discretion, consider extending the Offer Notice Period, as appropriate; and

(iv) if the Covenanter has not received any written notice from us during the Offer Notice Period, our Bank shall be deemed to have declined the New Tender Project.

CORPORATE GOVERNANCE MEASURES

In addition to the measures addressing potential competition and conflict of interest as stated above, our Directors believe that there are also adequate corporate governance measures in place to manage the potential conflict of interest between our Controlling Shareholder and our Group and to safeguard the interests of our Shareholders taken as a whole due to the following reasons:

(a) our independent non-executive Directors will review, on an annual basis, the compliance with Non-competition Undertakings by our Controlling Shareholder;

(b) our Controlling Shareholder shall provide all information requested by our Bank which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Non-competition Undertakings;

(c) our Bank will disclose decisions and related basis of matters reviewed by our independent non-executive Directors (including all rejections by our Bank of New Tender Project in the Restricted Business that have been referred by our Controlling Shareholder), which are related to compliance and enforcement of the Non-Competition Undertakings by our Controlling Shareholder in the annual reports of our Bank or by way of public announcement;

(d) our Controlling Shareholder will make annual statements on compliance with the Non-competition Undertakings in our annual reports, which is consistent with the principle of making disclosure in the corporate governance report of the annual report;

(e) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed five independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. For details of our independent non-executive Directors, please see "Directors, Supervisors and Senior Management — Board of Directors — Independent Non-executive Directors"; and

(f) in the event that our independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group on the one hand and our Controlling Shareholder and/or our Directors on the other, our Controlling Shareholder and/or our Directors shall provide our independent non-executive Directors with all necessary information and our Bank shall disclose the decisions of our independent non-executive Directors (including why business opportunities referred to it by our Controlling Shareholder were not taken up) either through its annual reports or by way of announcements.

BOARD OF DIRECTORS

Our Board of Directors consists of fifteen Directors, including five executive Directors, five non-executive Directors and five independent non-executive Directors. Our Directors are elected for a term of three years and are subject to re-election, provided that the cumulative term of an independent non-executive Director shall not exceed six years in accordance with PRC laws and regulations. The following table sets forth certain information regarding our Directors.

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a Director[(1)]	Responsibilities
Executive Directors					
Mr. TAN Xianguo (譚先國)	53	Executive Director and chairman of the Board of Directors	July 1997	September 2004	Responsible for the overall work of the Bank, the Board of Directors and the party committee; in charge of party construction, strategy research, corporate culture, organization & human resources and other matters
Mr. MENG Dongxiao (孟東曉)	48	Executive Director and president	March 2016	April 2016	Responsible for the overall work of operation and management, accomplishing all objectives set and tasks assigned by the Board of Directors; assisting with material matters of the party committee; in charge of the work of human resources, Risk Management Department and Legal and Compliance Department
Mr. ZHANG Renzhao (張仁釗)	49	Executive Director and vice president	July 1997	April 2013	Responsible for the overall work of Tongda Financial Leasing Co.; in charge of the work of Credit Approval Department; also responsible for the business approval of the financial market department and the wealth management department
Mr. BI Qiubo (畢秋波)	57	Executive Director and secretary of the Board of Directors	July 1997	July 2011	Responsible for assisting with strategic research; in charge of the work of Office of the Board of Directors, General Office and Strategy Management Department (including the Postdoctoral Workstation)
Ms. TAO Zunjian (陶遵建)	50	Executive Director and chief accountant (總會計師)	July 1997	January 2019	Responsible for the work of Financial Planning Department, Operation Management Department and Administration Management Department; in charge of performance assessment and appraisal, education and training; assisting with the matters of Labor Union

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a Director[(1)]	Responsibilities
Non-executive Directors					
Mr. LI Hang (李航)	50	Non-executive Director	December 2007	April 2008	Responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Mr. WANG Song (王松)	57	Non-executive Director	April 2015	June 2015	Responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Mr. SUN Chenglong (孫成龍)	49	Non-executive Director	April 2018	July 2018	Responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Mr. YI Jijun (伊繼軍)	55	Non-executive Director	April 2015	June 2015	Responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Mr. WANG Qixiang (王啟祥)	57	Non-executive Director	February 2020	June 2020	Responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Independent non-executive Directors					
Mr. LIU Xue (劉學)	57	Independent non-executive Director	March 2016	July 2016	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. LU Qing (路清)	53	Independent non-executive Director	March 2016	July 2016	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. SUN Guomao (孫國茂)	59	Independent non-executive Director	July 2017	September 2017	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. ZHANG Guanghong (張廣鴻)	63	Independent non-executive Director	December 2018	January 2019	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. FAN Chi Chiu (范智超)	34	Independent non-executive Director	February 2020	June 2020	Responsible for supervising and providing independent advice on the operation and management of our Bank

Note:

1. The date of appointment as a Director stated here represents the date on which the relevant Director obtained the qualification approval from relevant and appropriate banking supervisory and regulatory bodies.

Executive Directors

Mr. TAN Xianguo (譚先國), aged 53, is an executive Director and the chairman of the Board of the Bank. He is primarily responsible for the overall work of the Bank, the Board of Directors and the party committee; in charge of party construction, strategy research, corporate culture, organization & human resources and other matters.

Mr. TAN has more than 27 years of experience in the banking industry. Mr. Tan has been the chairman of the Board since July 2011 and the secretary of the party committee of our Bank since May 2011. He was the vice chairman of the Board and the president of our Bank from September 2004 to July 2011, a deputy secretary of the party committee of our Bank from July 2001 to May 2011 and the chairman of the board of supervisors of our Bank from July 2001 to August 2004. Prior to that, he was a vice president and a member of the party committee of Weihai City Cooperative Bank (威海城市合作銀行) (the predecessor of our Bank) and our Bank from July 1997 to April 1998 and from April 1998 to July 2001, respectively. From July 1993 to July 1997, he worked consecutively as an accountant, a section chief (科長), a deputy director (副主任) and a director (主任) of Weihai City Xinghai Urban Credit Cooperative (威海市興海城市信用合作社).

Mr. Tan obtained a bachelor's degree in economy from Shaanxi Institute of Finance and Economics (陝西財經學院) in Shaanxi Province, the PRC, majoring in accounting. Mr. Tan obtained a master's degree in laws at Tsinghua University in Beijing, the PRC, in July 2006, majoring in Marxist theory and ideological and political education (馬克思主義理論與思想政治教育). He further obtained a master's degree at Peking University in Beijing, the PRC, majoring senior management business administration (高級管理人員工商管理) in July 2010.

Mr. Tan was certified as a senior accountant by Shandong Province Professional Accounting Qualifications Senior Evaluation Committee (山東省會計專業資格高級評審委員會) in December 2003.

Mr. MENG Dongxiao (孟東曉), aged 48, is an executive Director and the president of the Bank. Mr. Meng has been the president of our Bank since February 2018. He is primarily responsible for the overall work of operation and management, accomplishing all objectives set and tasks assigned by the Board of Directors; assisting with material matters of the party committee; in charge of the work of human resources, Risk Management Department and Legal and Compliance Department.

Mr. Meng has more than 16 years of experience in banking industry. Mr. Meng joined our Bank in March 2016 as an executive Director, a vice president of our Bank and a committee member of the party committee. He has been the the deputy secretary of the party committee of our Bank since December 2017.

Prior to joining our Bank, Mr. Meng worked at China Minsheng Bank (中國民生銀行) from October 2003 to February 2016 successively as an assistant to the president of the eastern sub-branch of the Shanghai branch, the general manager of the quality management centre of the commercial enterprise finance division, the general manager of compliance and quality management center of the SME finance division and the general manager of the Shanghai branch of the health finance division. Mr. Meng attended Fudan University (復旦大學) in Shanghai, the PRC, from September 2000 to June 2003 for a doctoral degree in finance. Mr. Meng was a lecturer at Shanghai Customs College (上海海關專科學校, currently known as 上海海關學院) from August 1996 to September 2003.

Mr. Meng obtained a doctoral degree in economy from Fudan University (復旦大學) in Shanghai, the PRC, in June 2003, majoring in finance.

Mr. ZHANG Renzhao (張仁釗), aged 49, is an executive Director and the vice president of the Bank. He is primarily responsible for the overall work of Tongda Financial Leasing Co.; in charge of the work of Credit Approval Department. He is also responsible for the business approval of the financial market department and the wealth management department.

Mr. Zhang has more than 26 years of experience in banking industry. Mr. Zhang has served as a vice president of the Bank since July 2005. He has been the chairman of the board of Tongda Financial Leasing Co., a non-wholly owned subsidiary of our Bank, since April 2018 and served as its president (總裁) from February 2017 to June 2019. Mr. Zhang was the financial controller of our Bank from March 2003 to November 2018. He concurrently served as the president of the Jinan branch of our Bank from October 2009 to February 2015, and as a director of the planning and finance department (計劃財務部主任) from March 2003 to May 2006. He served as the director of financial accounting department (財務會計部主任) of our Bank from November 1998 to March 2003. Prior to that, he served as a deputy director of the accounting and cashier department (會計出納部副主任) of Weihai City Cooperative Bank (威海城市合作銀行) (the predecessor of our Bank) from August 1997 to November 1998 and a deputy chief (副科長) and then the chief of accounting (會計科長) of Weihai City Xinghai Urban Credit Cooperative (威海市興海城市信用合作社) from April 1994 to August 1997. Prior to joining our Bank, Mr. Zhang worked at the Luojiang office, Deyang branch of the Bank of China (中國銀行德陽分行羅江分理處).

Mr. Zhang graduated from Shandong University of Finance (山東財政學院) in Shandong, the PRC, in January 2007, majoring in accounting. He was certified as an accountant by the Ministry of Finance of the PRC in May 2005.

Mr. BI Qiubo (畢秋波), aged 57, is an executive Director and the secretary of the Board. He is primarily responsible for assisting with strategic research; in charge of the work of Office of the Board of Directors, General Office and Strategy Management Department (including the Postdoctoral Workstation).

Mr. Bi has more than 24 years of experience in banking industry. Mr. Bi joined our Bank in July 1997. He has been the secretary of the Board and a member of the party committee since March 2014, and served as the director (主任) of the office of the Board and the secretary of the Board from January 2006 to March 2014. He consecutively worked as an officer (幹事) and a deputy director (副主任) of the human relationship and labour department (人事勞資部) and a director (主任) of the general office of our Bank from December 1998 to January 2006. He worked as a general secretary (綜合秘書) of Weihai City Xinghai Urban Credit Cooperative (威海市興海城市信用合作社) and then a general secretary (綜合秘書) of Weihai City Cooperative Bank (the predecessor of our Bank) (威海城市合作銀行) and our Bank from July 1996 to December 1998. Prior to joining our Bank, Mr. Bi worked at Wendeng Textile Industry Company (文登市紡織工業公司) consecutively served as a secretary, a deputy secretary (副書記) of the youth league committee (團委) and the secretary (書記) of the youth league committee (團委).

Mr. Bi graduated from the accounting programme jointly organized by the China Central Radio and TV University (中央廣播電視大學) (currently known as the Open University of China) in Beijing, the PRC, and Beijing Technology and Business University (北京工商大學), in Beijing, the PRC, in July 2007.

Mr. Bi was certified as a political analyst by the Intermediate Duty Assessment Committee for Ideological and Political Staff at Enterprises in Weihai (威海市企業思想政治工作人員專業職務中級評審委員會) in December 1992.

Ms. TAO Zunjian (陶遵建) aged 50, is an executive Director and the chief accountant. She is primarily responsible for the work of Financial Planning Department, Operation Management Department and Administration Management Department; in charge of performance assessment and appraisal, education and training; assisting with the matters of Labor Union.

Ms. Tao has more than 30 years of experience in banking industry. Ms. Tao joined Weihai Xinwei City Credit Cooperatives (威海市新威城市信用社) in July 1990. She has been the chief accountant (總會計師) of the Bank since November 2018 and served as the chief financial officer and the general manager of the planning and financial department of the Bank from October 2014 to October 2018. Ms. Tao consecutively served as a deputy manager and a deputy manager (in-charge) of the planning and financial department (計劃財務部) of the Bank from September 2008 to June 2010, and the general manager of the planning and financial department of the Bank from June 2010 to October 2018. She worked as a deputy director (副主任) of the customer business department (客戶業務部) from November 2006 to September

2008, and a staff at the technology department of Weihai Xinwei City Credit Cooperatives (威海市新威城市信用社) and a staff at the credit management department of Weihai City Cooperative Bank (威海城市合作銀行) (the predecessor of our Bank) and our Bank from July 1990 to November 2006.

She was certified as a senior accountant by Shandong Province Professional Accounting Qualifications Senior Evaluation Committee (山東省會計專業資格高級評審委員會) in January 2016.

Ms. Tao graduated from the Correspondence Institute of the Central Party School of C.P.C (中共中央黨校函授學院), the PRC, majoring in economic management (經濟管理) in December 1997.

Non-executive Directors

Mr. LI Hang (李航), aged 50, is a non-executive Director. He is primarily responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank.

Mr. Li has more than 25 years of experience in finance and accounting related fields. He has been a director of Shandong Hi-Speed Group Company since May 2017 and a director of Shandong Hi-Speed from March 2006 to March 2020. He worked at Shandong Hi-Speed Group Company for more than 14 years. He served as the chairman of Shandong Hi-Speed Everbright Industrial Investment Fund Management Co., Ltd. from April 2013 to April 2020. He was the chief accountant (總會計師) of Shandong Hi-Speed Group Company from February 2012 to August 2017. From November 2007 to February 2012, he has consecutively served as a deputy director (in charge) (副部長(主持工作)) and the director (部長) of the finance department, and the director (部長) of the planning and finance department of Shandong Hi-Speed Group Company. He was a director of Shandong Hi-Speed from March 2006 to March 2020. He was a deputy middle-level management of Shandong Hi-Speed Group Company from June 2005 to November 2007, a director of Pakistan Siegel-Qingqi Motorcycle Co., Ltd. (巴基斯坦賽格爾-輕騎摩托車有限公司) from September 2002 to June 2005. Mr. Li successively served as a director and a supervisor of Jinan Qingqi Motorcycle Co., Ltd. (濟南輕騎摩托車股份有限公司) from April 2001 to June 2005, and a deputy director (副部長) of the finance department of China Qingqi Group Co., Ltd. (中國輕騎集團有限公司) from January 2000 to June 2005. He was the deputy director (副部長) of the finance department of China Qingqi Group Jinan Foreign Trade Co., Ltd. (中國輕騎集團濟南對外貿易有限公司) from May 1998 to January 2000. Mr. Li served as the financial manager (財務經理) and financial director (財務總監) of Pakistan Siegel-Qingqi Motorcycle Co., Ltd. (巴基斯坦賽格爾-輕騎摩托車有限公司) from April 1996 to May 1998. He consecutively served as a financial manager (財務經理) of Sri Lankan Oriental Qingqi Lanka Company (斯里蘭卡東方輕騎蘭卡公司), Pakistan New-oriental International Trading Company (巴基斯坦新東方國際貿易公司), and Qingqi Uganda-Kenya

Trading Company (輕騎烏干達-肯尼亞貿易公司) from July 1995 to April 1996. Mr. Li served as the secretary of the office and a staff member of financial department (財務部) of China Qingqi Motorcycle Group Corporation (中國輕騎摩托車集團總公司) from July 1994 to July 1995.

Mr. Li served as a non-executive director and the chairman of the board of China Innovative Finance Group Limited (currently known as China Shandong Hi-Speed Financial Group Co., Ltd), the shares of which are listed on the Hong Kong Stock Exchange (stock code: 412) from October 2016 to May 2019.

The table below sets forth the current directorship and supervisorship held by Mr. Li:

Name of the Company	Place of Establishment/ Incorporation	Nature of Business	Position	Term of Service
Shandong Hi-Speed Group Company . .	PRC	Investment, construction and operation of transportation infrastructure	Director	May 2017 to present

Mr. Li graduated from Shandong University of Finance (山東財政學院) in Shandong Province, the PRC, majoring in finance, in July 1994, and graduated from Nankai University in Tianjin, the PRC, majoring in accountancy, in July 1998. He graduated from Tongji University in Shanghai, the PRC, in November 2003 and then obtained a master's degree in Management Science and Engineering. From December 2014 to November 2017, Mr. Li worked as a post-doctoral researcher in the applied economics discipline of Baoshang Bank. He further obtained a doctoral degree in business management from Tongji University in Shanghai, the PRC, in November 2008.

Mr. Li was certified as a professor-level senior accountant (教授級正高級會計師) by the Senior Evaluation Committee of Professional Accounting Qualifications in Shandong Province (山東省會計專業資格高級評審委員會) in January 2018. He became a member of The Association of International Accountants in September 2010, and was jointly certificated as an international accountant by The Association of International Accountants and China Association of Chief Financial Officers in April 2012.

Mr. WANG Song (王松), aged 57, is a non-executive Director. He is primarily responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank.

Mr. Wang has over 17 years of experience in financial management. He served as chairman of the municipal state-owned enterprise supervisory board (派駐市屬國有企業監事會) of Weihai State-owned Enterprise Directors and Supervisors Work Management Center (威海市國有企業董事監事工作管理中心) from July 2014 to August 2019. He served as the vice principal and a party committee member of Shandong Provincial Accounting Cadre Secondary

Professional School Weihai Branch (山東省會計幹部中等專業學校威海分校, currently known as Weihai City Vocational Secondary Professional School (威海市職業中等專業學校) from December 2009 to July 2014. From January 1997 to December 2009, he consecutively served as the head (科長) of the social security section (社會保障科) and the head (科長) of the liberal arts (教科文科) section of the Weihai City Finance Bureau (威海市財政局). From January 1989 to January 1997, Mr. Wang consecutively served as a staff member (科員), a deputy director (副主任) and the director (主任) of the office of Leading Group for Controlling Purchasing Power of Social Groups of Weihai City Finance Bureau (威海市財政局控制社會集團購買力領導小組辦公室).

The table below sets forth the current directorship held by Mr. Wang:

Name of the Company	Place of Establishment/ Incorporation	Nature of Business	Position	Term of Service
Weihai City Investment Group Co., Ltd. (威海城市投資集團有限公司)	PRC	Urban construction and development	Full-time external director	August 2019 to present
Weihai Urban Construction Group Co., Ltd. (威海城建集團有限公司)	PRC	Development and operation of real estate	Full-time external director	August 2019 to present
Weihai Cultural Tourism Development Group Co., Ltd. (威海文旅發展集團有限公司)	PRC	Investment and development of cultural tourism, sports and other related industries	Full-time external director	August 2019 to present
Weihai Traffic Station Management Co., Ltd. (威海交通場站管理有限公司)	PRC	Management of transportation hubs and parking lots	Full-time external director	August 2019 to present
Weihai Dongshan Hotel Co., Ltd. (威海市東山賓館有限公司)	PRC	Accommodation and making and sales of Chinese food	Full-time external director	August 2019 to present

Mr. Wang graduated from the Correspondence College of Party School of the Central Committee of the Communist Party of China in Shandong, the PRC, in December 1995, majoring in economic management. He graduated from his master's studies from China Communist Party Shandong Provincial Committee Party School (中共山東省委黨校) in Shandong, the PRC, majoring in economic management profession, in June 2011.

Mr. Wang was certificated as a senior accountant by the Senior Evaluation Committee of Professional Accounting Qualification Shandong Province in February 2002.

Mr. SUN Chenglong (孫成龍), aged 49, is a non-executive Director. He is primarily responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank.

Mr. Sun has more than 25 years of experience in accounting and financial management. He has been working for China National Heavy Duty Truck Group Company Limited (中國重型汽車集團有限公司) ("**CNHTC**", together with its subsidiaries, the "**CNHTC Group**"), a company mainly engaged in the development, research, manufacture and sales of various heavy duty trucks, as a deputy general manager (副總經理) since January 2020, a financial deputy chief officer (財務副總監) and the chief officer of financial risk control (金融風控總監) since December 2018 and the general manager of the finance department (財務部總經理) from June 2017 to December 2018. Mr. Sun has taken various finance-related and managerial positions within the CNHTC Group. He was the deputy general manager (副總經理) and the chief accountant (總會計師) of Sinotruk Ji'nan Commercial Truck Co., Ltd.* (中國重汽集團濟南商用車有限公司) from April 2015 to June 2017. He was the financial controller (chief accountant) (財務總監(總會計師)) of Sinotruk Jinan Special Vehicle Co., Ltd. (中國重汽集團濟南特種車有限公司) from June 2013 to April 2015. He was the director, the chief accountant (總會計師), the chief accountant (總會計師) of the youth department (青專事業部) and the chief accountant of the Haidou business department (海斗事業部總會計師) of China National Heavy Duty Truck Group Qingdao Heavy Industry Co., Ltd. (中國重汽集團青島重工有限公司) from July 2011 to June 2013. He was the financial controller (chief accountant) (財務總監(總會計師)) of Sinotruk Special Purpose Vehicle Company (重汽集團專用汽車公司) from January 2009 to July 2011. He was a managing director (專務) of the financial department of Sinotruk (Hong Kong) Limited (中國重汽(香港)有限公司) from April 2007 to January 2009. He worked for Sinotruk Sales Company (中國重汽銷售公司) from July 1994 to April 2007, consecutively as an accountant, a deputy manager and a manager of the finance department from July 1994 to April 2007.

The table below sets forth the current directorship held by Mr. Sun:

Name of the Company	Place of Establishment/ Incorporation	Nature of Business	Position	Term of Service
CNHTC Ji'nan Investment Co., Ltd.* (中國重汽集團濟南投資有限公司)	PRC	Investment in automobile industry and real estate	Executive director, legal representative and the general manager	November 2017 to present
Shandong HOWO Auto Finance Co., Ltd. (山東豪沃汽車金融有限公司)	PRC	Auto service	Director, chairman of the board, legal representative	September 2019 to present
Sinotruk Jinan Power Co., Ltd. (中國重汽集團濟南動力有限公司)	PRC	Development, production and sales of engine and parts	Director	October 2019 to present
Sinotruk Group Insurance Broker Co., Ltd. (重汽集團保險經紀有限公司)	PRC	Insurance brokerage	Director	October 2019 to present
Sinotruk (Hong Kong) International Investment Limited (中國重汽(香港)國際資本有限公司)	Hong Kong	Overseas investment and financing platform	Director	September 2019 to present
Sinotruk Global Village Investment Limited (中國重汽地球村投資有限公司)	Hong Kong	Overseas investment and financing platform	Director and general manager	June 2018 to present
Sinotruk (Hong Kong) Limited (中國重汽(香港)有限公司), listed on the Hong Kong Stock Exchange (stock code: 3808)	Hong Kong	Manufacture and sales of commercial vehicle	Executive director and financial controller	January 2019 to March 2020

Mr. Sun graduated from the Shandong University of Finance (山東財政學院) in Jinan, the PRC, in July 1997, majoring in accountancy. He was certified as a senior accountant by the Senior Evaluation Committee of Professional Accounting Qualifications in Jinan in May 2018.

Mr. YI Jijun (伊繼軍), aged 55, is a non-executive Director. He is primarily responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank.

Mr. Yi has more than 25 years of experience in financial accounting and finance field. He has been a director and a deputy secretary (副書記) of the party committee of Shandong Hi-Speed (a company listed on the Shanghai Stock Exchange, stock code: 600350) since April 2013 and November 2018, respectively. From April 2013 to November 2018, he was a deputy general manager (副總經理) and the chief accountant (總會計師) of Shandong Hi-Speed. From July 2001 to March 2013, he consecutively served as deputy director (副處長) and director (處長) of the finance department of the Highway Bureau of Shandong Provincial Communications Department (山東省交通廳公路局). Prior to that, he served in the finance department of the Shandong Provincial Communications Department (山東省交通廳) from September 1994 to July 2001. From July 1987 to September 1994, Mr. Yi worked as a teacher at the economics teaching and research office of Shandong Provincial Communications Cadre School (山東省交通幹部學校經濟教研室).

Mr. Yi was certified as a senior accountant by Shandong Province Professional Accounting Qualifications Senior Evaluation Committee (山東省會計專業資格高級評審委員會) in February 2002.

Mr. Yi has obtained a bachelor's degree at Xi'an Highway College (西安公路學院) in Xi'an, the PRC, majoring in financial accounting (財務會計) in July 1987.

Mr. WANG Qixiang (王啟祥), aged 57, was elected as a non-executive Director by the Shareholders' general meeting in February 2020. He is primarily responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank.

Mr. Wang has more than 33 years of experience in finance and accounting related field. He has been an executive officer of Shandong Hi-Speed Group Company since July 2020, a chief financial officer (財務總監) and a member of the party committee of Qilu Transportation since February 2016 and January 2018, respectively. He was the general counsel (總法律顧問) of Qilu Transportation from June 2016 to January 2018. He worked as the general manager of Qilu Transportation Investment Co., Ltd. (齊魯交通投資有限公司) from February 2016 to May 2018. From March 2011 to February 2016, he served as a director, deputy general manager (副總經理) and member of the party committee of Taishan Property Insurance Co., Ltd. (泰山財產保險有限公司). Mr. Wang served as the chief financial officer of Shandong Luxin Investment Holding Group Co., Ltd. (山東省魯信投資控股集團有限公司) and Shandong Hi-Speed Group Company from August 2009 to November 2011 and from June 2006 to July 2009, respectively. Prior to that, Mr. Wang worked at Yankuang Group Co., Ltd. (兗礦集團有

限公司), a company mainly engaged in exploration and development of mineral resources, from August 1986 to November 2005, serving as a deputy chief accountant (副總會計師) from November 2005 to May 2006, the director (部長) of the finance department (財務處) from June 2002 to May 2006, and a deputy chief (副處長) of the finance department from December 1996 to June 2002. From August 1986 to December 1996, he consecutively worked as an accountant (會計), deputy section chief (副科長), section chief (科長), chief accountant (deputy level) (主任會計師(副處級)) of the Financial Settlement Center of the Finance Division (財務處財務結算中心會計) of Yankuang Group Co., Ltd.

Mr. Wang has been a director of Laishang Bank Co. Ltd. (萊商銀行股份有限公司) since November 2017.

He was certified as a professor-level senior accountant by Shandong Province Professional Accounting Qualifications Senior Evaluation Committee (山東省會計專業資格高級評審委員會) in January 2018.

Mr. Wang graduated from Correspondence Institute of the Central Party School of C.P.C (中共中央黨校函授學院) majoring in economic management (經濟管理) in December 1997, and from Shandong Normal University (山東師範大學) in Shandong Province, the PRC, majoring in jurisprudence (法學) in July 2002. He graduated from his master's studies at Shandong Provincial Party School of C.P.C (中共山東省委黨校), majoring in economic management (經濟管理) in June 2007.

Independent Non-executive Directors

Mr. LIU Xue (劉學), aged 57, is an independent non-executive Director of our Bank. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Liu has more than 15 years of experience in teaching and research experience in the management field. He has been working at Peking University since March 2001, has been professor of Guanghua School of Management of Peking University since August 2004. Mr. Liu was the chairman (理事長) of the Institute of Strategy (戰略研究所) of Peking University from December 2014 to July 2017, and was the deputy dean (副院長) of Guanghua School of Management (光華管理學院) and director (主任) of Senior Management Education Center (高層管理教育中心) of Peking University from December 2010 to July 2015. He served as the director (所長) of the Institute of Strategy (戰略研究所) of Peking University from July 2009 to December 2014, and was a professor and a deputy department head (系副主任) of Guanghua School of Management (光華管理學院) from August (as a professor) and September 2004 (as a deputy department head) to December 2010 and an associate professor of Guanghua School of Management (光華管理學院) of Peking University from March 2001 to July 2004. He engaged in postdoctoral research in Guanghua School of Management of Peking University from July 1999 to March 2001. Prior to joining Peking University, Mr. Liu has served consecutively as a lecturer, an associate professor (副教授) and a professor (教授) of School of Management, Shenyang Pharmaceutical University (瀋陽藥科大學管理學院) from August 1988 to August 1996, mainly responsible for teaching and research.

The following table sets forth the current directorship held by Mr. Liu:

Name of the Company	Place of Establishment/ Incorporation	Nature of Business	Position	Term of Service
China Etek Service & Technology Co., Ltd.	PRC	Technology development, consultancy and service	Independent director	April 12, 2018 to present
Chutian Dragon Co., Ltd.	PRC	Research, development and sales of embedded products	Independent director	July 2, 2018 to present

Mr. Liu obtained a bachelor's degree from Shenyang Pharmaceutical University (瀋陽藥科大學) in Shenyang, the PRC, majoring in chemical and pharmaceutical (化學製藥), in July 1985. He graduated from Peking University in Beijing and obtained a master's degree in economics in July 1988. He further obtained a doctoral degree in economics from Guanghua School of Management of Peking University, in July 1999. From July 1999 to March 2001, Mr. Liu was engaged in postdoctoral research in Guanghua School of Management of Peking University.

Mr. LU Qing (路清), aged 53, is an independent non-executive Director of our Bank. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Lu has more than 16 years of experience in the finance and accounting field. He has been a partner of ShineWing CPA (信永中和會計師事務所) (consolidated with Zhonghe Zhengxin Certified Public Accountants (中和正信會計師事務所)) since October 2009. Prior to that, he was a partner of Zhonghe Zhengxin Certified Public Accountants (中和正信會計師事務所) from September 2003 to October 2009 and Tianyi Certified Public Accountants (天一會計師事務所) from July 2001 to September 2003, respectively.

Mr. Lu served as an independent non-executive director of Hisense Kelon Electrical Holdings Company Limited (currently known as Hisense Home Appliances Group Co., Ltd.), the shares of which are listed on the Hong Kong Stock Exchange (stock code: 921) from June 2006 to July 2010.

He was certified as a senior accountant by Personnel Department of Shandong Province (山東省人事廳) in December 1998.

Mr. Lu graduated from Shandong University of Economics (currently known as Shandong University of Finance and Economics) (山東經濟學院(現山東財經大學)) in Shandong Province, the PRC, majoring in accounting, in May 1989. Mr. Lu graduated from his master's studies at Capital University of Economics (首都經濟貿易大學) in Beijing, the PRC, majoring in finance, in September 2003.

The table below sets forth the current directorship held by Mr. Lu:

Name of the Company	Place of Establishment/ Incorporation	Nature of Business	Position	Term of Service
Shandong Dong'e Ejiao Co., Ltd. (山東東阿阿膠股份有限公司).	PRC	Ejiao product development and production	Independent director	January 2015 to present
Qingdao Weiao Rail Co., Ltd. (青島威奧軌道股份有限公司)	PRC	Research and development and processing of rail transit equipment	Independent director	November 2016 to present

Mr. Sun Guomao (孫國茂), aged 59, is an independent non-executive Director. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Sun has over 15 years of experience in the finance industry. He has been a professor and PhD tutor (博士生導師) of School of Economics, Qingdao University (青島大學經濟學院) since September 2016. Mr. Sun was the chief expert (首席專家) of Collaborative Innovation Centre for Innovation and Development of Capital Market of Shandong Province (山東省資本市場創新發展協同創新中心) and Institute of Finance, Jinan University (濟南大學金融研究院), respectively, from April 2016 to January 2018. Mr. Sun has been working for Jinan University (濟南大學) consecutively as a director (主任) and a professor of the Corporate Finance Research Centre (公司金融研究中心) from October 2011 to January 2018, and as a professor of business school (商學院) from December 2015 to January 2018. Prior to that, Mr. Sun was the chairman of the board of Wanjia Fund Management Co., Ltd. (萬家基金管理有限公司) from December 2009 to May 2011 and was registered as a securities practitioner in Qilu Securities Co., Ltd. (齊魯證券有限公司, currently known as Zhongtai Securities Co., Ltd. 中泰證券有限公司) from July 2004 to December 2008.

The table below sets forth the current directorship held by Mr. Sun:

Name of the Company	Place of Establishment/ Incorporation	Nature of Business	Position	Term of Service
Shandong Luxin Investment Holding Group Co., Ltd. (山東省魯信投資控股集團有限公司)	PRC	Investment holding	Director	September 2015 to present
Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司).	PRC	Monetary financial services	Independent director	December 2014 to present
Qingdao Rural Commercial Bank Company Limited (青島農村商業銀行股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 002958).	PRC	Banking	Independent director	May 2017 to present

Mr. Sun was awarded the titles as a "Top-tier Financial Talent of Shandong Province" (山東省金融高端人才) by Shandong Provincial Financial Office (山東省金融工作辦公室) and a "Taishan Industry Leader" (泰山產業領軍人才) by People's Government of Shandong Province in May 2018 and December 2017, respectively.

Mr. Sun obtained a degree of bachelor's degree of light chemical (輕化工) from Northwest Institute of Light Industry (西北輕工業學院) in Shaanxi Province, the PRC, in July 1982, majoring in ceramic specialty (陶瓷專業). Mr. Sun further obtained a doctoral degree from Central University of Finance and Economics (中央財經大學) in Beijing, the PRC, in June 2002, majoring in national economics (國民經濟學). He was certified as a professor of Jinan University (濟南大學) by the Senior Evaluation Committee of Teachers in Shandong Province (山東省高等學校教師職務高級評審委員會) in April 2014.

Mr. ZHANG Guanghong (張廣鴻), aged 63, is an independent non-executive Director. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Zhang has more than 20 years of experience in the finance industry. Prior to serving as an independent Director of the Bank, he was an executive vice president (常務副總裁) of Beijing Financial Assets Exchange (北京金融資產交易所) from July 2012, and a deputy director (director level) (副主任(正主任級)) of Qingdao State-owned Assets Management Committee (青島市國有資產管理委員會) from November 2009 to April 2012. Mr. Zhang was the chairman of the board and the secretary of the party committee of Bank of Qingdao (青島銀行) from July 2006 to November 2009. He was the president of Qingdao City Commercial Bank (青島市商業銀行) from March 1999 to July 2006. Prior to abovementioned, Mr. Zhang had hold positions in various government departments, including the deputy director (副局長) of Qingdao Municipal Bureau of Domestic Trade (青島市國內貿易局) and a deputy director (副主任) of Qingdao Finance and Trade Commission (青島市財貿委員會).

The table below sets forth the current directorship and supervisorship held by Mr. Zhang:

Name of the Company	Place of Establishment/ Incorporation	Nature of Business	Position	Term of Service
Lujiazui International Trust Co., Ltd. (陸家嘴國際信託公司)	PRC	Trust fund business	Independent director	January 2015 to present
Bank of Suzhou Co., Ltd. (蘇州銀行有限公司)	PRC	Banking	External supervisor	December 2019 to present

Mr. Zhang obtained a bachelor's degree in electronic engineering (電子工程) from Chongqing Institute of Architectural and Engineering (now known as Chongqing University) (重慶建築工程學院,現為重慶大學) in Chongqing, the PRC, in December 1982. He further obtained a master's degree in economics from Southwestern University of Finance and Economics (西南財經大學) in Chengdu, the PRC, in June 1987. He was awarded the title of senior economist by Qingdao Municipal Personnel Bureau (青島市人事局) in December 1995.

Mr. FAN Chi Chiu (范智超), aged 34, was elected as an independent non-executive Director by the Shareholders' general meeting in February 2020. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Fan has more than 11 years of experience in accounting and corporate finance. Mr. Fan is currently an independent non-executive director of Hevol Services Group Co. Limited, the shares of which are listed on the Stock Exchange (stock code: 6093), and Shinelong Automotive Lightweight Application Limited, the shares of which are listed on the Stock Exchange (stock code: 1930), respectively, since June 2019. He is also currently an executive director of Grace Wine Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 8146), since July 2017. Mr. Fan joined ELL Environment Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1395), in April 2015 as the financial controller and is currently the chief financial officer since June 2015. Mr. Fan worked as an analyst in Barclays Investment Bank from July 2011 to February 2014 and a senior associate of PricewaterhouseCoopers from October 2007 to June 2011.

Mr. Fan obtained a bachelor's degree in professional accountancy from the Chinese University of Hong Kong in December 2007. Mr. Fan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants in January 2011.

BOARD OF SUPERVISORS

The PRC Company Law requires a joint stock company to establish a board of supervisors that is responsible for supervising performance of the board of directors and senior management, its financial operations, internal control and risk management. Our Board of Supervisors consists of nine Supervisors, including three employees' representative Supervisors, three Shareholders' representative Supervisors and three external Supervisors. Our Supervisors are elected for a term of three years and may be subject to re-election, and the cumulative term of an external Supervisor shall not exceed six years. The following table sets forth certain information about our Supervisors.

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a Supervisor	Responsibilities
Mr. DENG Wei (鄧衛)	56	Chairman of the Board of Supervisors and Employees' representative Supervisor	July 1997	April 2015	Responsible for the overall work of the Board of Supervisors and supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank, convening and presiding over the meetings of the Board of Supervisors and reporting to the Shareholders' general meeting on behalf of the Board of Supervisors
Ms. ZHAO Lijie (趙麗傑)	45	Shareholders' representative Supervisor	May 2011	May 2011	Responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank
Mr. ZHOU Hao (周浩)	40	Shareholders' representative Supervisor	May 2011	May 2011	Responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a Supervisor	Responsibilities
Mr. FENG Yongdong (馮永東)	54	Shareholders' representative Supervisor	April 2015	April 2015	Responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank
Mr. LIU Changjie (劉昌傑)	55	Employees' representative Supervisor	July 1997	May 2011	Responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank
Ms. ZHANG Xuening (張雪凝)	48	Employees' representative Supervisor	July 1997	April 2015	Responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank
Mr. TAN Degui (譚德貴)	55	External Supervisor	March 2016	March 2016	Responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank
Ms. TENG Bo (滕波).	65	External Supervisor	July 2017	July 2017	Responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank
Ms. LI Yuanfen (李元芬)	55	External Supervisor	April 2015	April 2015	Responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank

Mr. DENG Wei (鄧衛), aged 56, is an employees' representative Supervisor and the chairman of the Board of Supervisors of the Bank. He is primarily responsible for overall work of the Board of Supervisors and supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank, convening and presiding over the meetings of the Board of Supervisors and reporting to the Shareholders' general meeting on behalf of the Board of Supervisors.

Mr. Deng has more than 39 years of experience in the banking industry. He joined our Bank as chief to the planning department in July 1997 and has been the chairman of the Board of Supervisors since April 2015 and a member of the China Communist Party committee of our Bank since August 2001. Prior to joining the Bank, Mr. Deng was with Industrial and Commercial Bank of China Limited from May 1985 to July 1997, during which he successively served as a staff member (科員) of credit and loan department, the deputy section chief (副科長) and the section chief (科長) of the planning department of Weihai Branch, and the vice president of Weihai High-tech Development Zone Sub-Branch. From November 1980 to May 1985, he was with PBoC Weihai Branch as an accountant.

Mr. Deng obtained a diploma in economic management from China Communist Party Shandong Provincial Committee Party School (中共山東省委黨校) in Shandong Province, the PRC, in June 2001. He graduated from China Communist Party Shandong Provincial Committee Party School (中共山東省委黨校) in Shandong Province, the PRC, in December 2004, majoring in economic management.

Ms. ZHAO Lijie (趙麗傑), aged 45, is a Shareholders' representative Supervisor of the Bank. She is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank.

Ms. Zhao has approximately 16 years of experience in accounting. She joined Weihai Tianan Real Estate Development Co., Ltd. (威海天安房地產開發有限公司), a company mainly engaged in property development and retail, in September 2001 and has been the manager of finance department and deputy general manager mainly responsible for tax filling, sales management and project financing since May 2004.

Ms. Zhao passed the self-study examination and graduated from Shandong Economic University (山東經濟學院) (currently known as Shandong University of Finance and Economics) in Shandong Province, the PRC, in December 2010, majoring in accounting. Ms. Zhao was accredited as a senior accountant by Department of Human Resources and Social Security of Shandong (山東省人力資源和社會保障廳) in August 2019.

Mr. ZHOU Hao (周浩), aged 40, is a Shareholders' representative Supervisor of the Bank. He is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank.

Mr. Zhou has more than 17 years of experience in corporate management. He joined Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. (山東環球漁具股份有限公司), a company mainly engaged in sale of fishing gear and related products, in September 2002 and has been the general manager mainly responsible for daily business operation management since August 2018.

The table below sets forth the current directorship held by Mr. Zhou:

Name of the Company	Place of Establishment/ Incorporation	Nature of Business	Position	Term of Service
Weihai Ailan Fishing Gear Technology Development Co., Ltd. (威海愛藍漁具科技發展有限公司)	Shandong Province, the PRC	Development, production and sale of fishing rod	Executive director	August 2011 to present
Weihai Global Property Co., Ltd. (威海環球置業有限公司)	Shandong Province, the PRC	Development of real estate	Executive director	June 2010 to present

Mr. Zhou obtained a bachelor's degree in corporate management from Chongqing Business College (重慶商學院) (currently known as Chongqing Technology And Business University) in Chongqing, the PRC, in July 2001. He obtained a master's degree in business administration from Ecole des Dirigeants et Createurs d'entreprise in Paris, France, in September 2002. He also obtained a master's degree in law and a doctor's degree in western economics from Shandong University in Shandong Province, the PRC, in June 2008 and December 2018, respectively. Mr. Zhou was accredited as a senior economist by Weihai Economic Professional Qualification Senior Review Committee (威海市經濟專業職務資格高級評審委員會) in March 2018. He also obtained the PRC legal professional qualification granted by the Ministry of Justice of the PRC in February 2008. Mr. Zhou was awarded as the Weihai Labor Model by China Communist Party Committee of Weihai and People's Government of Weihai in April 2019.

Mr. FENG Yongdong (馮永東), aged 54, is a Shareholders' representative Supervisor of the Bank. He is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank.

Mr. Feng has more than 37 years of experience in corporate management. He joined Homey Group Co., Ltd. (好當家集團有限公司), a company mainly engaged in aquaculture, food processing, medicine and health care, special transportation of goods, biotechnology research and development, import and export and other businesses, as a chief accountant in finance department in January 1983 and has been a director mainly in charge of finance and management of subsidiaries since April 2016. From January 2001 to present, Mr. Feng successively served as a financial controller and a deputy general manager in Shandong Homey Aquatic Development Co., Ltd. (山東好當家海洋發展股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600467), a company primarily engaged in the farming, processing and sale of organisms in all types of water environments, and he was mainly in charge of finance and management of subsidiaries.

The table below sets forth the current directorship held by Mr. Feng:

Name of the Company	Place of Establishment/ Incorporation	Nature of Business	Position	Term of Service
Homey Group Co., Ltd. (好當家集團有限公司)	Shandong Province, the PRC	Aquaculture, food processing, medicine and health care, special transportation of goods, biotechnology research and development, import and export and other businesses	Director	April 2016 to present

Mr. Feng graduated from Renmin University of China, in Beijing, the PRC, in July 1996, majoring in enterprise management. Mr. Feng was accredited as an intermediate accountant by Weihai Municipal Human Resources Bureau in December 1995.

Mr. LIU Changjie (劉昌傑), aged 55, is an employees' representative Supervisor of the Bank. He is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank.

Mr. Liu has more than 32 years of experience in the banking industry. He joined our Bank as chief (主任) of Xinghai Credit Cooperatives of our Bank (威海市城市合作銀行興海信用社) in July 1997 and has been the president of employees' union and a member of the China Communist Party committee of our Bank since January 2006, and he is mainly responsible for the overall management of the employees' union of our Bank. Prior to joining our Bank, from August 1995 to July 1997, Mr. Liu was a deputy chief (副主任) at Shandong Fund Financing Center Weihai Office (山東資金融通中心威海辦事處). He was with PBoC Weihai Branch as a staff member of planning department from July 1988 to August 1995.

Mr. Liu obtained a bachelor's degree in economics from Jilin Finance and Trade College (吉林財貿學院) (currently known as Jilin University of Finance And Economics) in Jilin Province, the PRC, in July 1988. Mr. Liu was accredited as an economist by Department of Transportation of Shandong Province (山東省交通廳) in December 1999.

Ms. ZHANG Xuening (張雪凝), aged 48, is an employees' representative Supervisor of the Bank. She is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank.

Ms. Zhang has more than 24 years of experience in the banking industry. She joined our Bank in July 1997 and has been the chief of disciplinary office since November 2018. Prior to joining our Bank, Ms. Zhang was with Weihai Xinwei City Credit Cooperatives (威海市新威城市信用合作社) from August 1996 to July 1997.

Ms. Zhang obtained a bachelor's degree in economic management from Inner Mongolia Agriculture and Animal Husbandry College (內蒙古農牧學院) (currently known as Inner Mongolia Agricultural University) in Inner Mongolia, the PRC, in July 1996. Ms. Zhang was accredited as an economist by Human Resources Department of Shandong Province in November 2000.

Mr. TAN Degui (譚德貴), aged 55, is an external Supervisor of the Bank. He is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank.

Mr. Tan has approximately 31 years of experience in philosophy study and research. He has been a researcher in world religion research institute at Chinese Academy of Social Sciences since September 2009 and currently worked as a researcher in Taoism and folklore religion research office. Mr. Tan has been a doctoral supervisor of the Graduate School of Chinese Academy of Social Sciences since October 2018. From September 1989 to August 2009, Mr. Tan was with Institute of Philosophy of Shandong Academy of Social Sciences (山東社會科學院).

Mr. Tan obtained a bachelor's degree in philosophy and a master's degree in philosophy from Shandong University in Shandong Province, the PRC, in 1986 and 1989, respectively. He also obtained a doctor's degree in Chinese philosophy from Beijing Normal University in Beijing, the PRC, in 2009.

Ms. TENG Bo (滕波), aged 65, is an external Supervisor of the Bank. She is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank.

Ms. Teng has approximately 21 years of experience in banking industry. She has been the chairwoman of board of supervisors of Zhejiang Wencheng BOB Rural Bank Co., Ltd. since July 2017. From 1996 to 2014, Ms. Teng was with Bank of Beijing Co., Ltd. the shares of which are listed on the Shanghai Stock Exchange (stock code: 601169), during which she successively served as deputy general manager of human resources department, general manager of institute management department and chief representative of Hong Kong representative office.

Ms. Teng obtained a diploma in medical science from Beijing Medical Science College (北京醫學高等專科學校) in Beijing, the PRC, in July 1996. Ms. Teng obtained an executive master's degree of business administration from Xiamen University in Fujian Province, the PRC, in June 2010. Ms. Teng was accredited as a chief nurse by General Political Department of Chinese People's Liberation Army (中國人民解放軍總政治部) in June 1990. Ms. Teng was appointed as a member of the eleventh session of council of China International Economic Relations Association in November 2016.

Ms. LI Yuanfen (李元芬), aged 55, is an external Supervisor of the Bank. She is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank.

Ms. Li has approximately 25 years of experience in administrative management. She was the chairwoman of board of supervisors assigned to municipal state-owned enterprises by Weihai State-owned Assets Supervision and Administration Commission (威海市國有資產監督管理委員會) from July 2014 to May 2019. From December 2012 to August 2014, Ms. Li was a vice president of Shandong Accounting Cadre Secondary Vocational School Weihai Branch (山東省會計幹部中等專業學校威海分校) (currently known as Weihai Secondary Vocational School (威海市職業中等專業學校)). Ms. Li was with Weihai Municipal Finance Bureau from July 1993 to December 2012, during which she successively served as a staff member (科員), a deputy chief member (副主任科員) of general office, the section chief (科長) of accounting department, the section chief (科長) of liability finance department, the section chief (科長) of grassroots finance management department and the section chief (科長) of administration and law department.

Ms. Li obtained a bachelor's degree in economics from Shanghai University of Finance and Economics in Shanghai, the PRC, in July 1989. She obtained a master's degree in accounting from the Chinese University of Hong Kong in Hong Kong, the PRC, in December 2008. Ms. Li was accredited as a senior accountant by Shandong Accounting Professional Qualification Senior Review Committee (山東省會計專業資格高級評審委員會) in January 2002.

SENIOR MANAGEMENT

The following table sets out certain information regarding our senior management.

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a member of the senior management	Responsibilities
Mr. MENG Dongxiao (孟東曉)	48	Executive Director and President	March 2016	March 2016	Responsible for overall operation and management; implementing the completion of the objectives and tasks assigned by the Board of Directors; assisting in the management of major matters of the party committee; in charge of human resources, risk management department, legal compliance department, etc
Mr. LIU He (劉河).	57	Chief audit officer	October 1997	December 2008	Responsible for the corporate banking department, the Transportation Finance Department and Information Technology Department; also responsible for the marketing of the financial market department and the wealth management department
Mr. ZHANG Renzhao (張仁釗)	49	Executive Director and Vice president	July 1997	July 2005	Responsible for the overall management of financial leasing companies and is in charge of credit approval department; also responsible for the business approval of the financial market department and the wealth management department
Mr. BI Qiubo (畢秋波)	57	Executive Director and secretary of the Board of Directors	July 1997	January 2006	Responsible for strategic research of the Bank and is in charge of the office of the Board, the Bank's office and the strategic management department (including postdoctoral management station)
Ms. TAO Zunjian (陶遵建)	50	Executive Director and chief accountant of our Bank	July 1997	November 2018	Responsible for the management of the planning and finance department, operation management department and administrative management department, in charge of performance assessment and appraisal, education and training, assisting in management of the labor union

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a member of the senior management	Responsibilities
Mr. ZHANG Xiaodong (張曉東)	51	Vice president	September 2005	November 2018	Responsible for the management of retail banking department, internet finance department and inclusive financing department (small business financial service center)
Mr. LI Haiqing (李海清)	48	Assistant of the president	July 1997	October 2009	Responsible for the overall management of asset preservation of the Bank

For biographical details of **Mr. MENG Dongxiao (孟東曉), Mr. ZHANG Renzhao (張仁釗), Mr. BI Qiubo (畢秋波) and Ms. TAO Zunjian (陶遵建)**, please see "— Executive Directors" of this section.

Mr. LIU He (劉河), aged 57, is the chief audit officer of the Bank. He is primarily responsible for the corporate banking department, the transportation finance department and information technology department. He is also responsible for the marketing of the financial market department and the wealth management department.

Mr. Liu has more than 37 years of experience in the banking industry. He joined our Bank as chief of audit department in October 1997 and has been the chief audit officer and a member of the China Communist Party committee of our Bank since December 2008. Prior to joining our Bank, Mr. Liu was with PBoC Weihai Branch from November 1979 to August 1983 and from December 1986 to May 1996, during which he successively served as a staff member (科員) and a deputy section chief (副科長) of audit department.

Mr. Liu completed the undergraduate programme in finance and graduated from Jingan College Continuing Education School (京安學院繼續教育學院) in Beijing, the PRC, in July 2006. Mr. Liu was accredited as an economist by PBoC Shandong Branch Economic Professional Qualification Intermediate Review Committee (中國人民銀行山東省分行經濟系列專業技術職務中級評審委員會) in November 1993.

Mr. ZHANG Xiaodong (張曉東), aged 51, is a vice president of the Bank. He is primarily responsible for the management of retail banking department, internet finance department and inclusive financing department (small business financial service center).

Mr. Zhang has approximately 25 years of experience in the banking industry. He joined our Bank as a staff of development and renovation department in September 2005 and has been a vice president since November 2018. Prior to joining our Bank, Mr. Zhang was with the business development department of Huaxia Bank Co., Ltd. Jinan Branch from December 2003 to September 2005. From October 2002 to October 2003, he served as an assistant to the general manager at Weigao Group Co., Ltd. (威高集團有限公司). From July 1993 to May 2001, Mr. Zhang was the leader of import team of settlement business department at PBoC Weihai Branch.

Mr. Zhang obtained a master's degree in finance from Royal Melbourne Institute of Technology in Melbourne, Australia, in October 2002. Mr. Zhang was accredited as an economist by Ministry of Human Resources of the PRC in November 1997.

Mr. LI Haiqing (李海清), aged 48, is the assistant to president of the Bank. He is primarily responsible for the overall management of asset preservation of the Bank.

Mr. Li has approximately 25 years of experience in banking industry. He joined our Bank as the section chief (科長) of credit and loan department in July 1997, and has been the assistant to president since October 2009. Prior to joining our Bank, Mr. Li served as chief (科長) of credit and loan department in Weihai Xinghai City Credit Cooperatives (威海市興海城市信用合作社) from December 1995 to July 1997. From April 1991 to August 1995, Mr. Li successively served as an account and a deputy manager of finance department at Weihai Foreign Trade Machinery Hardware Mineral Co., Ltd. (威海外貿機械五金礦產公司).

Mr. Li graduated from China Communist Party Shandong Provincial Committee Party School (中共山東省委黨校) in Shandong Province, the PRC, in December 2000, majoring in economic management. Mr. Li was accredited as an accountant by Ministry of Finance of the PRC in May 1996.

JOINT COMPANY SECRETARIES

Mr. BI Qiubo (畢秋波), was appointed on April 10, 2020 as one of the joint company secretaries of the Bank. For biographical details of Mr. BI Qiubo, please see "— Board of Directors — Executive Directors" above in this section.

Ms. Tam Pak Yu, Vivien (譚栢如), was appointed as one of the joint company secretaries of the Bank on April 10, 2020, which will become effective from listing of the H Shares. Ms. Tam serves as an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited (方圓企業服務集團(香港)有限公司), a professional services provider specializing in corporate services, and has over five years of experience in corporate secretarial field. Ms. Tam has been admitted as an associated member of both The Hong Kong Institute of Chartered Secretaries and Chartered Governance Institute in 2018.

Ms. Tam obtained a bachelor's degree in China Studies from Hong Kong Baptist University in 2014 and a master's degree in Professional Accounting and Corporate Governance from City University of Hong Kong in 2017.

COMMITTEES UNDER THE BOARD OF DIRECTORS

Our Board of Directors currently has the following committees: Strategic Development Research Committee, the Audit Committee, the Risk Management Committee, the Related Parties Transactions Control Committee, the Nomination and Remuneration Committee, and the Consumer Rights Protection committee. The committees operate in accordance with their respective terms of reference established by our Board of Directors.

Strategic Development Research Committee

Our Board of Directors has established a Strategic Development Research Committee with written terms of reference. The Strategic Development Research Committee consists of seven Directors, being Mr. TAN Xianguo (譚先國), Mr. MENG Dongxiao (孟東曉), Mr. LI Hang (李航), Mr. WANG Song (王松), Mr. LIU Xue (劉學), Mr. ZHANG Renzhao (張仁釗) and Mr. BI Qiubo (畢秋波). The chairperson of the Strategic Development Research Committee is Mr. TAN Xianguo (譚先國). The primary duties of the Strategic Development Research Committee are as follows:

- researching and making recommendations on our long-term development strategies and significant investment decisions;
- researching and putting forward questions on our development objectives, development direction, development priorities, development measures and other development-related issues;
- making recommendations to the Board of Directors on strategies issues in our development;
- researching and making recommendations on other significant issues that impact our development;
- reviewing the implementation of the above matters; and
- performing other responsibilities as authorized by our Board of Directors.

Audit Committee

Our Board of Directors has established an Audit Committee with written terms of reference in compliance with the requirements under the Listing Rules. The Audit Committee consists of five Directors, being Mr. LU Qing (路清), Mr. SUN Guomao (孫國茂), Mr. SUN Chenglong (孫成龍), Mr. YI Jijun (伊繼軍) and Mr. ZHANG Guanghong (張廣鴻). The chairperson of the Audit Committee is Mr. LU Qing (路清). The primary duties of the Audit Committee are as follows:

- reviewing our internal audit system and medium and long-term audit plans;
- assessing and making decisions on the procedure of internal audit work with authorization from our Board of Directors;
- enabling communication between our internal and external auditors;
- reviewing the performance of the duties of the chief audit officer and the head of internal audit department of the Bank, and making suggestions and opinions to the Board of Directors on their appointment and removal;
- listening to the work report of the internal audit department of the Bank, guiding the internal audit work of the audit department, and evaluating and supervising its audit work;
- discussing the implement of internal audit and reporting the audit work to the Board of Directors;
- recommending independent external auditor to the Board of the Bank; and
- performing other responsibilities as authorized by our Board of Directors and in accordance with applicable laws and regulations.

Risk Management Committee

Our Board has established a Risk Management Committee with written terms of reference. The Risk Management Committee consists of five Directors, being Mr. LI Hang (李航), Mr. WANG Song (王松), Mr. YI Jijun (伊繼軍), Mr. SUN Guomao (孫國茂) and Mr. ZHANG Renzhao (張仁釗). The chairperson of the Risk Management Committee is Mr. LI Hang (李航). The primary duties of the Risk Management Committee are as follows:

- responsible for monitoring the risk control in respect of liquidity, credit, markets, operations and technology of the senior management;
- regularly assessing the risk conditions of the Bank;

- giving suggestions on improving the risk management and internal control of the Bank;

- evaluating the capital adequacy of the Bank on a regular basis;

- carrying out a research on the disposal of non-performing assets and bad debts;

- studying other major assets, risks and internal control deficiencies and weaknesses that affect the Bank's development, assessing the impact and giving suggestions; and

- performing other responsibilities as authorized by our Board of Directors.

Related Party Transactions Control Committee

Our Board has established a Related Party Transactions Control Committee with written terms of reference. The Related Party Transactions Control Committee consists of five Directors, being Mr. FAN Chi Chiu (范智超), Mr. LU Qing (路清), Mr. WANG Qixiang (王啟祥), Mr. ZHANG Guanghong (張廣鴻) and Ms. TAO Zunjian (陶遵建). The chairperson of the Related Party Transactions Control Committee is Mr. FAN Chi Chiu (范智超). The primary duties of the Related Party Transactions Control Committee are as follows:

- guiding the Bank to correctly implement related policies and regulations on related party transactions of China and the provisions on related party transactions under the Hong Kong Listing Rules;

- formulating policies, rules and management systems on the related (connected) party transactions of the Bank;

- being responsible for the identification and announcement of the related (connected) parties of the Bank;

- submitting to the Board of Directors for review and approval upon reviewing major related (connected) party transactions in accordance with relevant provisions;

- being responsible for periodically reporting to the Board of Directors and Board of Supervisors in relation to details of identified related (connected) parties and related (connected) party transactions; and

- performing other responsibilities as authorized by our Board of Directors.

Nomination and Remuneration Committee

Our Board has established a Nomination and Remuneration Committee with written terms of reference in compliance with the requirements under the Listing Rules. The Nomination and Remuneration Committee consists of five Directors, being Mr. LIU Xue (劉學), Mr. FAN Chi Chiu (范智超), Mr. SUN Guomao (孫國茂), Mr. WANG Qixiang (王啟祥) and Mr. BI Qiubo (畢秋波). The chairperson of the Nomination and Remuneration Committee is Mr. LIU Xue (劉學). The primary duties of the Nomination and Remuneration Committee are as follows:

Nomination Duties

- making recommendations to our Board of Directors on the scale and composition of the Board based on the operating activities, asset scale and shareholding structure of the Bank;
- reviewing the procedures and standards for selecting and appointing directors and senior management personnel, making relevant recommendations and submitting it to our Board of Directors for review;
- identifying qualified candidates for directors and senior management personnel under the authorization of the Board of Directors, making preliminary assessments on their qualifications and conditions, and making recommendations; and
- performing other responsibilities as authorized by the Board of Directors and in accordance with applicable laws and regulations.

Remuneration Duties

- reviewing our remuneration plans or proposals for directors, senior management, making recommendations on the establishment of a formal and transparent procedures for developing remuneration policy and submitting it to the Board of Directors for review;
- reviewing the performance of directors and senior management personnel and conducting annual performance evaluations;
- considering the evaluation standards of directors and senior management of the Bank and supervising the implementation of remuneration system for directors and senior management; and
- performing other responsibilities as authorized by the Board of Directors and in accordance with applicable laws and regulations.

Consumer Rights Protection Committee

Our Board has established a Consumer Rights Protection Committee with written terms of reference. The Consumer Rights Protection Committee consists of five Directors, being Mr. WANG Song (王松), Mr. SUN Chenglong (孫成龍), Mr. YI Jijun (伊繼軍), Mr. WANG Qixiang (王啟祥) and Ms. TAO Zunjian (陶遵建). The chairperson of the Consumer Rights Protection Committee is Mr. WANG Song (王松). The primary duties of the Consumer Rights Protection Committee are as follows:

- formulating our strategies, policies and goals in relation to consumer rights protection and supervising their effective implementation by our senior management; and

- reviewing resolutions in relation to consumer rights protection to be submitted to our Board of Directors and making relevant recommendations.

COMMITTEES UNDER THE BOARD OF SUPERVISORS

Our Board of Supervisors has established a nomination committee and a supervision committee. The committees operate in accordance with the terms of reference established by our Board of Supervisors.

Nomination Committee

Our Board of Supervisors has established a nomination committee with written terms of reference. The nomination committee consists of four Supervisors, being Mr. TAN Degui (譚德貴), Mr. ZHOU Hao (周浩), Mr. FENG Yongdong (馮永東) and Ms. ZHANG Xuening (張雪凝). The chairperson of the nomination committee is Mr. TAN Degui (譚德貴). The primary duties of the nomination committee are as follows:

- formulating standards and procedures for selecting and appointing supervisors, and preliminarily examining the qualifications of supervisor candidates, and making recommendations to our Board of Supervisors;

- overseeing the election procedure of directors;

- making comprehensive performance evaluation of directors, supervisors and senior management; and

- reviewing our remuneration management policies and assessing the scientificity and reasonableness of our remuneration plans for senior management.

Supervision Committee

Our Board of Supervisors has established a supervision committee with written terms of reference. The supervision committee consists of four Supervisors, being Ms. TENG Bo (滕波), Ms. LI Yuanfen (李元芬), Ms. ZHAO Lijie (趙麗傑) and Mr. LIU Changjie (劉昌傑). The chairperson of the supervision committee is Ms. TENG Bo (滕波). The primary duties of the supervision committee are as follows:

- formulating the supervision plan for our financial activities and implementing the relevant supervision plan; and

- supervising our Board of Directors in the forming of sound operating concept and business value, and a development strategy consistent with our Bank's circumstances, as well as assessing our business decisions, risk management and internal control and supervising the rectification thereof.

BOARD DIVERSITY POLICY

The Bank has adopted a board diversity policy (the "**Board Diversity Policy**") setting out the approach to achieve and maintain diversity on the Board in compliance with the Listing Rules, pursuant to which the Bank seeks to achieve Board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge, length of service and any other factors that the Board may consider relevant and applicable from time to time.

Furthermore, the Nomination and Remuneration Committee will review the Board composition at least once annually taking into account the benefits of all relevant diversity aspects, and adhering to the Board Diversity Policy when making recommendation to the Board on appointment of new Directors. The Nomination and Remuneration Committee will also review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness.

The Board comprises fifteen members, including five executive Directors, five non-executive Directors and five independent non-executive Directors. Our Directors have a balanced mix of experience, including banking, corporate management, economics and finance. Furthermore, the Board has a relatively wide range of age, ranging from 34 years old to 63 years old. The Board has both male and female representation on the Board. Our Directors consider that the current composition of the Board satisfies the principals under the Board Diversity Policy.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The compensation and remuneration of our Directors and Supervisors are determined by our Shareholders' general meetings and the compensation and remuneration of members of the senior management are determined by the Board of Directors. We also reimburse them for expenses which are necessary and reasonably incurred in providing services to us or discharging their duties in relation to our operations. When reviewing and determining the specific remuneration packages for our Directors, Supervisors and members of the senior management, our Shareholders' general meetings and the Board of Directors take into consideration factors such as salaries paid by comparable companies, time commitment, level of responsibilities and desirability of performance-based remuneration. As required by PRC laws and regulations, we also participate in various defined contribution plans organized by relevant provincial and municipal government authorities and welfare schemes for our employees, including medical insurance, injury insurance, unemployment insurance, pension insurance, maternity insurance, housing provident fund and enterprise annuity.

Our Bank offers our executive Directors, employees' representative Supervisors and senior management members, who are also our employees, compensation in the form of salaries, social security, housing provident fund, enterprise annuity and other benefits. Our independent non-executive Directors and external Supervisors receive compensation.

The aggregate amounts of remuneration paid by us to our Directors and Supervisors for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020 were approximately RMB15.18 million, RMB14.80 million, RMB15.37 million and RMB2.62 million, respectively.

The aggregate amounts of remuneration paid by us to our five highest paid individuals for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020 were approximately RMB10.10 million, RMB10.40 million, RMB10.00 million and RMB1.62 million, respectively.

It is estimated that remuneration equivalent to approximately RMB15.12 million in aggregate will be paid to the Directors and Supervisors by our Bank in 2020 based on the arrangements in force as of the date of this prospectus.

No remuneration was paid by us to our Directors, Supervisors or the five highest paid individuals as inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. Furthermore, Mr. Chen Gengzhao ("**Mr. Chen**") (a former independent director of the Bank who resigned in July 2017 due to his other career development) waived his service fee during the same periods. Mr. Chen was then a general manager of the retail credit management department of Ping An Bank. In order to draw on the advanced experience of retail banking from industry peers, our Bank communicated with Mr. Chen and invited him to concurrently serve as an independent director of our Bank after the approval by Ping An Bank. Mr. Chen decided to waive his service fee for his service as an independent director of our Bank. Save as disclosed above, none of our Directors or Supervisors who are qualified to receive service fees had waived or agreed to waive any remuneration during the Track Record Period.

Save as disclosed above, no other payments have been paid or are payable during the Track Record Period by us to the Directors or Supervisors.

INTEREST OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed in this prospectus, each of our Directors, Supervisors and members of the senior management (i) did not hold other positions in our Bank as of the Latest Practicable Date; (ii) had no other relationship with any of our Directors, Supervisors and senior management as of the Latest Practicable Date; and (iii) did not hold any other directorship in listed companies in the three years prior to the Latest Practicable Date. For our Directors' and Supervisors' interests in the Domestic Shares within the meaning of Part XV of the SFO, please see "Appendix VIII — Statutory and General Information" to this prospectus.

As of the Latest Practicable Date, Mr. Wang Qixiang, a non-executive Director of our Bank, was also a non-executive Director of Laishang Bank Co. Ltd. (萊商銀行股份有限公司) ("**Laishang Bank**") since November 2017. Laishang Bank is a city commercial bank headquartered in Jinan City of Shandong Province, the PRC. For the year ended December 31, 2019, the operating income, gross profit and net profit of Laishang Bank was RMB3,536.4 million, RMB671 million and RMB544.7 million, respectively, and the total assets as of December 31, 2019 were RMB134,028.1 million. As a non-executive Director of Laishang Bank, Mr. Wang Qixiang is primarily responsible for participating in making decisions and giving advice on the corporate governance, compliance and risk management of Laishang Bank and is not involved in its daily operation and management. On the other hand, (i) Mr. Wang Qixiang is also not involved in the daily operation and management of our Bank as a non-executive Director, and (ii) we have appointed five independent non-executive Directors, representing one-third of the members of our Board of Directors to balance any potential conflict of interests in order to safeguard the interests of our Bank and the Shareholders as a whole. Accordingly, the Directors consider that the directorship of Mr. Wang at Laishang Bank does not and is unlikely to give rise to significant competition or conflict of interest between Mr. Wang and our Bank.

Save as disclosed herein, none of our Directors are interested in any business, apart from our business, which competes or is likely to compete, either directly or indirectly, with our business which require to be disclosed under Rule 8.10(2) of the Listing Rules.

Save as disclosed herein, the best of the knowledge, information and belief of our Directors and Supervisors, having made all reasonable inquiries, there were no additional matters with respect to the appointment of our Directors or Supervisors that need to be brought to the attention of the Shareholders and there were no additional information relating to our Directors or Supervisors that are required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

COMPLIANCE ADVISOR

We have appointed Central China International Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules, and the compliance advisor will advise our Bank in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where our Bank proposes to use the proceeds of the Global Offering in a manner that is different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecasts, estimates or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of our Bank regarding unusual movements in the price or trading volume of our H Shares, the possible development of a false market in our H Shares or any other matters.

The terms of the appointment of our compliance advisor will commence on the Listing Date and end on the date when we distribute the annual report of our financial results for the first full financial year commencing after the Listing Date.

As of the Latest Practicable Date, the total issued share capital of our Bank was RMB4,971,197,344 divided into 4,971,197,344 Domestic Shares with a nominal value of RMB1.00 each. So far as the Directors are aware, immediately prior to the completion of the Global Offering (as if the H Shares are listed on the Hong Kong Stock Exchange) and immediately following the completion of the Global Offering, the following persons will have or be deemed or taken to have interests and/or short positions in the Shares or underlying Shares which would be required to be disclosed to our Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings:

				Immediately prior to the completion of the Global Offering	Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)		Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)	
Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares
Shandong Hi-Speed Group Company[(1)(2)]	Beneficial Owner	Domestic Shares	2,216,423,498	44.59%	37.90%	44.59%	37.06%	44.59%
	Interest in controlled corporation	Domestic Shares	693,957,987	13.96%	11.87%	13.96%	11.60%	13.96%
Shandong Hi-Speed	Beneficial Owner	Domestic Shares	693,957,987	13.96%	11.87%	13.96%	11.60%	13.96%
Weihai Municipal Finance Bureau	Beneficial Owner	Domestic Shares	919,671,509	18.50%	15.72%	18.50%	15.38%	18.50%

Notes:

(1) Shandong Hi-Speed Group Company is directly held by Shandong SASAC, Shandong Guohui Investment Co., Ltd. (山東國惠投資有限公司) (a wholly-owned subsidiary of Shandong SASAC) and Shandong Social Security Fund Council (山東省社會保障基金理事會) as to 70%, 20% and 10%, respectively.

(2) Shandong Hi-Speed is owned by Shandong Hi-Speed Group Company as to 70.91%, therefore, Shandong Hi-Speed Group Company is deemed to be interested in all the Shares held by Shandong Hi-Speed for the purpose of the SFO.

As of the Latest Practicable Date, the total issued share capital of our Bank was RMB4,971,197,344 divided into 4,971,197,344 Domestic Shares with a nominal value of RMB1.00 each.

Immediately following completion of the Global Offering and assuming the Over-Allotment Option is not exercised, the total issued share capital of our Bank will be as follows:

Class of Shares	Number of Shares	Approximate % of share capital
Domestic Shares	4,971,197,344	85.00%
H Shares to be issued pursuant to the Global Offering	877,271,000	15.00%
Total	**5,848,468,344**	**100.00%**

Assuming the Over-allotment Option is exercised in full, the total issued share capital of our Bank will be as follows:

Class of Shares	Number of Shares	Approximate % of share capital
Domestic Shares	4,971,197,344	83.13%
H Shares to be issued pursuant to the Global Offering	1,008,861,000	16.87%
Total	**5,980,058,344**	**100.00%**

SHARES OF OUR BANK

Upon completion of the Global Offering, our Bank will have two classes of Shares, namely Domestic Shares and H Shares, both of which are ordinary Shares in our share capital. However, the H Shares generally may not be subscribed for by, or traded between, legal or natural persons of the PRC, other than certain qualified domestic institutional investors in the PRC, qualified PRC investors under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, and other persons who are entitled to hold the H Shares pursuant to relevant PRC laws and regulations or upon approval by any competent authorities.

The rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of the Shareholders at a Shareholders' general meeting and by holders of such affected class of Shares at a separate Shareholders' general meeting. The circumstances which shall be deemed to be a variation or abrogation of the rights of a class of Shareholders are listed in "Appendix VI — Summary of Articles of Association". However, the procedures for approval by separate classes of Shareholders do not apply where: (i) our Bank issues Shares representing no more than 20% of each of the existing issued Domestic Shares and H Shares upon approval by a special resolution of the Shareholders at a Shareholders' general meeting, either separately or concurrently once every 12 months; (ii) our Bank's plan to issue Domestic Shares and H Shares at the time of our establishment is implemented within 15 months from the date of approval by the securities regulatory authorities of the State Council; or (iii) Shareholders convert our unlisted Shares into overseas listed Shares for listing and trading abroad upon the approval by the relevant banking regulatory authorities of the State Council and the securities regulatory authorities of the State Council.

RANKING

Pursuant to the Articles of Association, the Domestic Shares and the H Shares are categorized as different classes of Shares. Their differences and the provisions on class rights, the dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of members, the method of share transfer and appointment of dividend receiving agents are set forth in the Articles of Association and summarized in "Appendix VI — Summary of Articles of Association".

Except for the differences above, the Domestic Shares and the H Shares will rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. All dividends in respect of the H Shares are to be declared in Renminbi and paid by our Bank in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by our Bank in Renminbi. In addition to cash, dividends may be distributed in the form of shares.

CONVERSION OF THE DOMESTIC SHARES INTO H SHARES

Upon completion of the Global Offering, our Bank will have two classes of ordinary Shares, namely Domestic Shares and H Shares. All of the Domestic Shares are Shares which are not listed or traded on any stock exchange. Pursuant to the regulations prescribed by the securities regulatory authorities of the State Council and the Articles of Association, the unlisted Shares may be converted into overseas listed Shares. Such converted Shares could be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted Shares, any requisite internal approval process have been duly completed and the approval from the relevant regulatory authorities, including CSRC, have been obtained. In addition, such conversion and trading shall comply with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. If any Domestic Shares are to be converted into H Shares and traded on the Hong Kong Stock Exchange, such conversion will require the approval of the relevant PRC regulatory authorities, including CSRC. The listing and trading of such converted Shares on the Hong Kong Stock Exchange will also require the approval of the Hong Kong Stock Exchange at the time of conversion instead of at the time of our initial listing in Hong Kong.

Based on the procedures for the conversion of Domestic Shares into H Shares as disclosed below, we may apply for the listing of all or any portion of the Domestic Shares on the Hong Kong Stock Exchange as H Shares before any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of Shares for entry on the H Share register. As any listing of additional Shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No approval by separate class meeting is required for the listing and trading of such converted Shares on an overseas stock exchange. Any application for listing of the converted Shares on the Hong Kong Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform the Shareholders and the public of any proposed conversion.

After all the requisite approvals have been obtained, the relevant Domestic Shares will be withdrawn from the China Securities Depository and Clearing Corporation Limited and our Bank will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share register will be on the conditions that (i) our H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates; and (ii) the admission of the H Shares to be traded on the Hong Kong Stock Exchange complies with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted Shares are re-registered on our H Share register, such Shares will not be listed as H Shares.

LOCK-UP PERIODS

Pursuant to Article 141 of the PRC Company Law, shares issued prior to any public offering of shares by a company cannot be transferred within one year from the date on which such shares are listed and traded on the relevant stock exchange. As such, the Shares issued by our Bank prior to our issue of the H Shares will be subject to such statutory restriction on transfer within a period of one year from the Listing Date.

Our Directors, Supervisors and members of the senior management shall declare their shareholdings in our Bank and any changes in their shareholdings. Shares transferred by our Directors, Supervisors and members of the senior management each year during their term of office shall not exceed 25% of their total respective shareholdings in our Bank. The Shares that the aforementioned persons held in our Bank cannot be transferred within one year from the date on which the Shares are listed and traded on a stock exchange, nor within half a year after they leave their positions in our Bank. The Articles of Association may contain other restrictions on the transfer of our Shares held by our Directors, Supervisors and members of the senior management.

Pursuant to section 2 of paragraph (3) of Article 2 of the Notice on the Regulation of Internal Staff Shares in Financial Enterprises (《關於規範金融企業內部職工持股的通知》), for the regulation of the listing and circulation of internal staff shares and the strengthening of the management of secondary market circulation of such, a financial enterprise (which is listed or will be listed in the future) shall take steps to regulate the secondary market circulation of its internal staff shares which are held by its senior management, or individuals holding more than 50,000 internal staff shares. The aforementioned members of the senior management and individuals shall undertake not to transfer the shares held by them within three years from the date of listing of the financial enterprise. After the lapse of the lock-up period, the shares transferred by each of them in each year shall not exceed 15% of their respective total shareholdings in the financial enterprise. The aggregate number of shares transferred by them within five years of the lapse of the lock-up period shall not exceed 50% of their respective total shareholdings in the financial enterprise. Apart from the six-month lockup on our Bank's issue of Shares and the 12-month lock-up on controlling shareholders' disposal of shares, the laws of Hong Kong do not provide for restrictions related to shareholding volume or share transfers.

SHAREHOLDERS' GENERAL MEETINGS AND CLASS MEETINGS

For details of circumstances under which our Shareholders' general meeting and Shareholders' class meeting are required, please see subsections headed "Notice of Meetings and Business to be Conducted Thereat", and "Change of Rights of Existing Shares or Classes of Shares" in "Appendix VI — Summary of Articles of Association".

You should read the discussion and analysis set forth in this section in conjunction with our historical financial information, together with the accompanying notes included in Appendix I attached to this prospectus. Our historical financial information has been prepared in accordance with IFRS. In particular, we have adopted IFRS 9 to replace IAS 39 since January 1, 2018, which resulted in changes in our accounting policies that relate to the recognition, classification and measurement of financial assets and liabilities. For details on differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the section headed "Financial Information — Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies". Please also see Note 2(1)(a) to the Accountants' Report in Appendix I.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements due to a number of factors, including those set forth in "Forward-Looking Statements" and "Risk Factors".

ASSETS

Our total assets slightly decreased by 0.7% from RMB204,497.9 million as of December 31, 2017 to RMB203,121.9 million as of December 31, 2018, primarily due to a decrease in the scale of financial assets held under resale agreements as we adopt cautious risk control measures in accordance with regulatory development and risk management policies such as Notice on Regulating the Bond Trading Business by Bond Market Participants (Yin Fa [2017] No. 302) (《關於規範債券市場參與者債券交易業務的通知》(銀發[2017]302號)) issued by the CBIRC in 2017 (the "**2017 Notice**"). Under the 2017 Notice, the balance of our debt securities issued held under resale agreements or repurchase agreement shall not exceeds 80% of our net assets as of last quarter. Therefore, we decreased the scale of financial assets held under resale agreements in 2018. Our total assets increased by 10.6% from RMB203,121.9 million as of December 31, 2018 to RMB224,635.5 million as of December 31, 2019 and further increased slightly by 4.7% to RMB235,290.2 million as of March 31, 2020, primarily due to an increase in the loans and advances to customers as a result of our continuous efforts to develop our corporate and retail banking businesses. The principal components of our assets consist of (i) net loans and advances to customers and (ii) net financial investments, representing 43.0% and 40.3%, respectively, of our total assets as of March 31, 2020. The following table sets forth the components of our total assets as of the dates indicated:

	As of December 31,						As of March 31,	
	2017(1)		2018(2)		2019(2)		2020(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Assets								
Gross loans and advances to customers	66,518.6	32.5%	75,195.7	37.0%	92,451.6	41.2%	103,666.0	44,1%
Interest accrued(3)	N/A	N/A	350.2	0.2%	413.4	0.2%	533.6	0.2%
Allowance for impairment losses	(1,721.2)	(0.8%)	(2,229.4)	(1.1%)	(2,753.4)	(1.2%)	(2,993.9)	(1.3%)
Net loans and advances to customers	**64,797.4**	**31.7%**	**73,316.5**	**36.1%**	**90,111.6**	**40.2%**	**101,205.7**	**43.0%**
Gross financial investment	91,682.4	44.8%	92,775.5	45.7%	88,147.5	39.2%	93,804.3	39.9%
Interest accrued(3)	N/A	N/A	1,005.9	0.5%	1,281.4	0.6%	1,465.8	0.6%
Allowance for impairment losses	(367.5)	(0.2%)	(169.9)	(0.1%)	(300.5)	(0.1%)	(365.5)	(0.2%)
Net financial investments	**91,314.9**	**44.6%**	**93,611.5**	**46.1%**	**89,128.4**	**39.7%**	**94,904.6**	**40.3%**
Cash and deposits with the central bank	19,149.5	9.4%	18,464.8	9.1%	21,203.8	9.4%	19,256.1	8.2%
Financial assets held under resale agreements	15,058.1	7.4%	1,392.3	0.7%	5,386.6	2.4%	—	—
Deposits with banks and other financial institutions	1,129.5	0.6%	1,054.9	0.5%	2,026.9	0.9%	1,064.9	0.5%
Placements with banks and other financial institutions	1,202.3	0.6%	1,271.9	0.6%	507.2	0.2%	568.0	0.2%
Property and equipment	751.0	0.4%	723.8	0.4%	705.5	0.3%	693.4	0.3%
Right-of-use assets	N/A	N/A	N/A	N/A	476.9	0.2%	497.6	0.2%
Deferred tax assets	266.6	0.1%	591.9	0.3%	957.8	0.4%	1,068.2	0.5%
Other assets(4)	10,828.6	5.2%	12,694.3	6.2%	14,130.8	6.3%	16,031.7	6.8%
Total assets	**204,497.9**	**100.0%**	**203,121.9**	**100.0%**	**224,635.5**	**100.0%**	**235,290.2**	**100.0%**

Notes:

(1) IAS 39 was adopted prior to January 1, 2018.

(2) IFRS 9 was adopted from January 1, 2018 onwards.

(3) Presented pursuant to the Notice on Revising and Issuing the Format of Financial Statement of Financial Enterprises for 2018 (關於修訂印發2018年金融企業財務報表格式的通知) issued by the MOF in December 2018. The interest accrued on financial instruments measured based on the effective interest rate method should be included in the book balance of relevant financial instruments on the financial statements for 2018 from January 1, 2018 onwards.

(4) Consist primarily of prepayments, interests receivable, other receivables and finance lease receivables.

Loans and Advances to Customers

Loans and advances to customers are a major component of our assets. We provide a broad range of loan products to our customers through our distribution network. All of our loans and advances to customers are denominated in RMB. The following tables set forth the distribution of our loans and advances to customers by business model and cash flow characteristics as of the dates indicated. For further details, please see Note 18 to the Accountants' Report in Appendix I to this prospectus.

	As of December 31, 2017[(1)]		As of January 1, 2018[(2)]		As of December 31, 2018[(2)]		As of December 31, 2019[(2)]		As of March 31, 2020[(2)]	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
			(unaudited)							
	(in millions of RMB, except percentages)									
Loans and advances to customers measured at amortized cost										
Corporate loans	51,197.7	77.0%	51,197.7	77.0%	53,410.6	71.0%	63,499.1	68.7%	70,790.8	68.3%
Personal loans	11,403.1	17.1%	11,403.1	17.1%	15,181.0	20.2%	22,291.4	24.1%	23,964.6	23.1%
Discounted bills	3,917.8	5.9%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	66,518.6	100.0%	62,600.8	94.1%	68,591.6	91.2%	85,790.5	92.8%	94,755.4	91.4%
Loans and advances to customers measured at fair value through other comprehensive income										
Discounted bills	N/A	N/A	3,924.3	5.9%	6,604.1	8.8%	6,661.1	7.2%	8,910.6	8.6%
Subtotal	—	—	3,924.3	5.9%	6,604.1	8.8%	6,661.1	7.2%	8,910.6	8.6%
Gross loans and advances to customers	**66,518.6**	**100.0%**	**66,525.1**	**100.0%**	**75,195.7**	**100.0%**	**92,451.6**	**100.0%**	**103,666.0**	**100.0%**

	As of December 31, 2017[1]		As of January 1, 2018[2]		As of December 31, 2018[2]		As of December 31, 2019[2]		As of March 31, 2020[2]	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
			(unaudited)							
	(in millions of RMB, except percentages)									
Interest accrued[3]	N/A		N/A		350.2		413.4		533.6	
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost[4]	(1,721.2)		(1,949.4)		(2,229.4)		(2,753.4)		(2,993.9)	
Net loans and advances to customers	**64,797.4**		**64,575.7**		**73,316.5**		**90,111.6**		**101,205.7**	

Notes:

(1) Measured and recognized in accordance with the requirements of IAS 39.

(2) Measured and recognized in accordance with the requirements of IFRS 9.

(3) Pursuant to the Notice on Revising and Issuing the Format of Financial Statement of Financial Enterprises for 2018 (《關於修訂印發2018年金融企業財務報表格式的通知》) issued by the MOF in December 2018, the interest accrued on financial instruments measured based on the effective interest rate method should be included in the book balance of relevant financial instruments on the financial statements for from January 1, 2018 onwards.

(4) Under IFRS 9, allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognized in the "impairment reserve", which does not affect the book value of loans and advances to customers reported in our statements of financial position. As of January 1, 2018 and December 31, 2018, the allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income recognized in the impairment reserve was RMB4.6 million and RMB7.7 million, respectively. For details, please see Note 18(f)(ii) to the Accountants' Report in Appendix I to this prospectus.

Our gross loans and advances to customers before taking into account the interest accrued increased by 13.0% from RMB66,518.6 million as of December 31, 2017 to RMB75,195.7 million as of December 31, 2018, which further increased by 22.9% to RMB92,451.6 million as of December 31, 2019. Our gross loans and advances to customer further increased by 12.1% to RMB103,666.0 million as of March 31, 2020. The continued increase was primarily due to an increase in the loans and advances to customers as a result of our continuous efforts to develop our corporate and retail banking businesses.

Except as otherwise indicated, the following discussions are based on our gross loans and advances to customers before taking into account interest accrued and allowance for impairment losses.

Distribution of Loans by Business Line

Our loans and advances to customers consist of corporate loans, personal loans and discounted bills. For description of the loan products we offer, please see "Business — Our Principal Business Lines". The following table sets forth our loans and advances to customers by business line as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans	51,197.7	77.0%	53,410.6	71.0%	63,499.1	68.7%	70,790.8	68.3%
Personal loans	11,403.1	17.1%	15,181.0	20.2%	22,291.4	24.1%	23,964.6	23.1%
Discounted bills	3,917.8	5.9%	6,604.1	8.8%	6,661.1	7.2%	8,910.6	8.6%
Total loans and advances to customers	**66,518.6**	**100.0%**	**75,195.7**	**100.0%**	**92,451.6**	**100.0%**	**103,666.0**	**100.0%**

Corporate Loans

During the Track Record Period, corporate loans were the largest component of our loan portfolio, representing 77.0%, 71.0%, 68.7% and 68.3% of our total loans and advances to customers as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. Our corporate loans increased by 4.3% from RMB51,197.7 million as of December 31, 2017 to RMB53,410.6 million as of December 31, 2018, and further increased by 18.9% to RMB63,499.1 million as of December 31, 2019. As of March 31, 2020, our corporate loans amounted to RMB70,790.8 million. The continued increase in our corporate loans was primarily due to our continuous efforts to develop our corporate banking business and the relatively high increase in the exposure size of loans to industries such as leasing and business services, construction and real estate during the Track Record Period.

Distribution of Corporate Loans by Contract Maturity

The following table sets forth the distribution of our corporate loans by contract maturity as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Short-term loans and advances[1]	30,396.7	59.4%	32,076.4	60.1%	33,680.3	53.0%	32,663.9	46.1%
Medium- and long-term loans[2]	20,801.0	40.6%	21,334.2	39.9%	29,818.8	47.0%	38,126.9	53.9%
Total corporate loans	**51,197.7**	**100.0%**	**53,410.6**	**100.0%**	**63,499.1**	**100.0%**	**70,790.8**	**100.0%**

Notes:

(1) Short-term loans are loans with a maturity of one year or less and advances.

(2) Medium- and long-term loans are loans which mature in more than one year.

Short-term loans and advances accounted for 59.4%, 60.1%, 53.0% and 46.1% of our total corporate loans as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively.

Medium- and long-term loans accounted for 40.6%, 39.9%, 47.0% and 53.9% of our corporate loans as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively.

The changes in the maturity structure of our corporate loans during the Track Record Period were primarily driven by the fluctuation in market demand for loans with different maturities.

Distribution of Corporate Loans by Product Type

The following table sets forth the distribution of our corporate loans by product type as of the dates indicated. For details of each type of our corporate loans, please see "Business — Our Principal Business Lines — Corporate Banking — Corporate Loans".

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Working capital loans	44,618.2	87.1%	43,459.6	81.3%	46,485.9	73.2%	50,049.2	70.7%
Fixed asset loans	5,617.5	11.0%	9,445.2	17.7%	15,215.4	24.0%	18,752.4	26.5%
Others[1]	962.0	1.9%	505.8	1.0%	1,797.8	2.8%	1,989.2	2.8%
Total corporate loans	**51,197.7**	**100.0%**	**53,410.6**	**100.0%**	**63,499.1**	**100.0%**	**70,790.8**	**100.0%**

Note:

(1) Consisted primarily of trade financing and advances.

During the Track Record Period, working capital loans accounted for 87.1%, 81.3%, 73.2% and 70.7% of our total corporate loans as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. Our working capital loans decreased by 2.6% from RMB44,618.2 million as of December 31, 2017 to RMB43,459.6 million as of December 31, 2018, primarily due to the decrease in market demand for working capital loans. Our working capital loans increased by 7.0% from RMB43,459.6 million as of December 31, 2018 to RMB46,485.9 million as of December 31, 2019 and further increased by 7.7% to RMB50,049.2 million as of March 31, 2020, primarily due to the increase in market demand for working capital loans and our active implementation of bank-wide development plan as well as our efforts to develop our corporate loan business by enhancing marketing efforts and enriching our working capital loan products.

Fixed asset loans accounted for 11.0%, 17.7%, 24.0% and 26.5% of our total corporate loans as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. Our fixed asset loans increased by 68.1% from RMB5,617.5 million as of December 31, 2017 to RMB9,445.2 million as of December 31, 2018 and further increased by 61.1% to RMB15,215.4 million as of December 31, 2019. Our fixed asset loans amounted to RMB18,752.4 million as of March 31, 2020. The continued increase in our fixed asset loans was primarily due to the continuous increase in fixed asset loans as a result of our vigorous support to the field of infrastructure construction and the construction of major projects in response to the state policy of stepping up efforts to make up for deficiencies in infrastructure and other fields in recent years.

Other corporate loans consist primarily of trade financing and advances. Other corporate loans accounted for 1.9%, 1.0%, 2.8% and 2.8% of our total corporate loans as of December 31, 2017, 2018, 2019 and March 31, 2020 respectively. Our other corporate loans decreased by 47.4% from RMB962.0 million as of December 31, 2017 to RMB505.8 million as of December 31, 2018, primarily due to a decrease in our trade financing loans as a result of the dwindled import and export business in the PRC which was affected by the exchange rates and the rise of tariffs. Our other corporate loans increased by 255.4% from RMB505.8 million as of December 31, 2018 to RMB1,797.8 million as of December 31, 2019 and further increased by 10.6% to RMB1,989.2 million as of March 31, 2020, primarily because we started to categorize placements to non-deposit receiving financial institutions as corporate loan in 2019 in accordance with the regulatory policy. According to the "*Notice on Adjusting the Deposit and Loan Scope of Financial Institutions*" (《關於調整金融機構存款和貸款口徑的通知》) issued by the PBoC, placements to non-deposit receiving financial institutions regulated by the CBIRC such as financial leasing company should be categorized as "corporate loans". This is different to our placements to banks and other financial institutions in a way that such funds lent or released were to banks and financial institutions that provide deposit services to the public. We started to focus on placements to non-deposit receiving financial institutions in 2019 as (i) we recognized there is a growing market demands for placements to non-deposit receiving financial institutions in recent years as a result of the continuous grow in assets under management by financial leasing companies in the PRC in recent years; and (ii) it generally can achieve higher interest income as compared to placements to bank and other financial institutions that provide deposit services to the public. As of December 31, 2017, 2018 and 2019 and as of March 31, 2019 and 2020, our placements to non-deposit receiving financial institutions amounted to nil, nil, RMB860.0 million, nil and RMB1,245.0 million, respectively.

Distribution of Corporate Loans by Industry

Our corporate loans consist of loans to corporate banking customers in a broad range of industries. The following table sets forth the distribution of our corporate loans by industry classification as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Distribution of Loans								
Manufacturing	21,351.2	41.7%	20,597.4	38.6%	17,571.5	27.7%	17,494.1	24.7%
Leasing and business services	3,905.5	7.6%	6,899.8	12.9%	10,759.5	16.9%	10,905.3	15.4%
Construction	3,950.1	7.7%	4,418.3	8.3%	6,416.7	10.1%	8,408.2	11.9%
Water conservancy, environment and public facilities management	6,098.8	11.9%	5,064.7	9.5%	5,642.4	8.9%	7,501.4	10.6%
Wholesale and retail	7,913.7	15.5%	7,435.3	13.9%	7,564.7	11.9%	7,429.8	10.5%
Real estate	2,048.5	4.0%	1,872.5	3.5%	4,581.8	7.2%	5,573.5	7.9%
Agriculture, forestry, animal husbandry and fishery	1,235.7	2.4%	1,453.5	2.7%	1,881.9	3.0%	2,442.1	3.4%
Electricity, gas and water production and supply	1,211.0	2.4%	1,291.6	2.4%	1,139.0	1.8%	2,376.9	3.4%
Transportation, warehousing and postal services	873.9	1.7%	1,412.5	2.6%	1,773.6	2.8%	1,824.5	2.6%
Hygiene and social welfare	475.1	0.9%	563.4	1.1%	1,048.1	1.7%	1,052.5	1.5%
Culture, sports and entertainment	417.1	0.8%	837.1	1.6%	734.6	1.1%	965.8	1.4%
Others[1]	1,717.1	3.4%	1,564.5	2.9%	4,385.3	6.9%	4,816.7	6.7%
Total corporate loans	**51,197.7**	**100.0%**	**53,410.6**	**100.0%**	**63,499.1**	**100.0%**	**70,790.8**	**100.0%**

Note:

(1) Consist primarily of (i) information transmission, software and information technology services, (ii) education, (iii) resident services, maintenance and other services and (iv) accommodation and catering.

The aggregate balance of loans to our corporate borrowers in the manufacturing industry, the leasing and business services industry, the construction industry, the water conservancy, environment and public facilities management industry and the wholesale and retail industry, being the top five industries in terms of our aggregate corporate loan exposure as of March 31, 2020, collectively accounted for 84.4%, 83.2%, 75.5% and 73.1% of our total corporate loans as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively.

Our loans to corporate borrowers in the manufacturing industry accounted for 41.7%, 38.6%, 27.7% and 24.7% of our total corporate loans as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. Our loans to corporate borrowers in the manufacturing industry decreased by 3.5% from RMB21,351.2 million as of December 31, 2017 to RMB20,597.4 million as of December 31, 2018 and further decreased by 14.7% to RMB17,571.5 million as of December 31 2019. Our loans to corporate borrowers in the manufacturing industry amounted to RMB17,494.1 million as of March 31, 2020, representing a slight decrease of 0.4% as compared to our loans to corporate borrowers in the manufacturing industry as of December 31, 2019. The continued decrease primarily caused by a decrease in the market demand from corporate borrowers in the manufacturing industry as a result of the economic slowdown and industrial structure adjustment during the Track Record Period. In particular, in recent years, Shandong Province has accelerated the conversion of old growth drivers into new growth drivers, promoted the transformation and upgrading of traditional industries and focused on accelerating the withdrawal of backward and inefficient production capacity in industries such as steel, coal, electrolytic aluminium, tires, cement, etc., as per the PRC Government's initiative and policies on industrial structure adjustment in order to create space for advanced production capacity industries. As Shandong Province's traditional industries account for a high proportion of industry in the province, under the influence of PRC's economic slowdown since 2018, this has caused a decrease in the market demand from corporate borrowers in the manufacturing industry.

Our loans to corporate borrowers in the leasing and business services industry accounted for 7.6%, 12.9%, 16.9% and 15.4% of our total corporate loans as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. Our loans to corporate borrowers in the leasing and business services industry increased by 76.7% from RMB3,905.5 million as of December 31, 2017 to RMB6,899.8 million as of December 31, 2018, and further increased by 55.9% to RMB10,759.5 million as of December 31, 2019. Our loans to corporate borrowers in the leasing and business services industry amounted to RMB10,905.3 million as of March 31, 2020, representing an increase of 1.4% as compared to our loans to corporate borrowers in the leasing and business services industry as of December 31, 2019. The continued increase primarily due to our continuous efforts to develop quality customers in the leasing and business services industry, resulting in increased lending to this industry to support its growth.

Our loans to corporate borrowers in the construction industry accounted for 7.7%, 8.3% 10.1%, and 11.9% of our total corporate loans as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. Our loans to corporate borrowers in the construction industry increased by 11.9% from RMB3,950.1 million as of December 31, 2017 to RMB4,418.3 million as of December 31, 2018, which was further increased by 45.2% to RMB6,416.7 million as of December 31, 2019. Our loans to corporate borrowers in the construction industry amounted to RMB8,408.2 million as of March 31, 2020, representing an increase of 31.0% as compared to our loans to corporate borrowers in the construction industry as of December 31, 2019. The continued increase primarily because we increased loans granted to quality enterprises in the infrastructure construction industry, which was in line with PRC governmental policies on supporting the industry.

Our loans to corporate borrowers in water conservancy, environment and public facilities management industry accounted for 11.9%, 9.5%, 8.9% and 10.6% of our total corporate loans as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. Our loans to corporate borrowers in water conservancy, environment and public facilities management industry decreased by 17.0% from RMB6,098.8 million as of December 31, 2017 to RMB5,064.7 million as of December 31, 2018, primarily due to our efforts to optimize our corporate loan portfolio by adjusting credit extensions to certain corporate borrowers in the water, environment and public utilities industry, while maintaining appropriate risk control. Our loans to corporate borrowers in water conservancy, environment and public facilities management industry increased by 11.4% from RMB5,064.7 million as of December 31, 2018 to RMB5,642.4 million as of December 31, 2019 and further increased by 32.9% to RMB7,501.4 million as of March 31, 2020, primarily because we increased loans granted to quality enterprises in infrastructure construction industry, which was in line with PRC governmental policies on supporting the industry.

Our loans to corporate borrowers in the wholesale and retail industry accounted for 15.5%, 13.9%, 11.9% and 10.5% of our total corporate loans as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. The amount of our loans to corporate borrowers in the wholesale and retail industry decreased by 6.0% from RMB7,913.7 million as of December 31, 2017 to RMB7,435.3 million as of December 31, 2018, primarily due to a decrease in the loan demand from the wholesale and retail industry as a result of economic slowdown and our prudent approach in granting loans to wholesale and retail industry borrowers. The amount of loans that we extended to the corporate borrowers in the wholesale and retail industry increased by 1.7% from RMB7,435.3 million as of December 31, 2018 to RMB7,564.7 million as of December 31, 2019, primarily due to our constant endeavor to develop quality customers in wholesale and retail industry, which led to the increased loans extended to the industry to support its development. The amount of loans to corporate borrows in the wholesale and retail industry decreased slightly by 1.8% from RMB7,564.7 million as of December 31, 2019 to RMB7,429.8 million as of March 31, 2020, primarily due to a decrease in the loan demand from the wholesale and retail industry as a result of economic slowdown.

Distribution of Corporate Loans by Size of Corporate Borrowers

The following table sets forth the distribution of our corporate loans by the size of the borrowers as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Large enterprises[1]	10,051.2	19.6%	10,417.7	19.5%	12,180.6	19.2%	12,076.5	17.1%
Medium enterprises[1]	15,770.3	30.8%	17,880.7	33.5%	21,729.8	34.2%	26,721.6	37.7%
Small enterprises[1]	22,405.4	43.8%	22,617.8	42.3%	24,556.1	38.7%	26,395.7	37.3%
Micro enterprises[1]	1,952.1	3.8%	1,553.3	2.9%	3,171.3	5.0%	3,431.9	4.8%
Others[2]	1,018.7	2.0%	941.1	1.8%	1,861.3	2.9%	2,165.1	3.1%
Total corporate loans	**51,197.7**	**100.0%**	**53,410.6**	**100.0%**	**63,499.1**	**100.0%**	**70,790.8**	**100.0%**

Notes:

(1) The classification criteria for large, medium, micro and small enterprises are based on the number of their employees, operating income and total assets, as stated in the Classification Standards of Small and Medium Enterprises. Please see "Definitions and Technical Terms".

(2) Primarily included loans to public institutions.

Our loans to medium to large enterprises as a percentage of our total corporate loans accounted for 50.4%, 53.0%, 53.4% and 54.8%, respectively, as of December 31, 2017, 2018, 2019 and March 31, 2020. Loans to medium to large enterprises increased by 9.6% from RMB25,821.5 million as of December 31, 2017 to RMB28,298.4 million as of December 31, 2018, and further increased by 19.8% to RMB33,910.4 million as of December 31, 2019. Our loans to medium to large enterprises amounted to RMB38,798.1 million as of March 31, 2020. The continued increase in our loans to medium to large enterprises was primarily due to our efforts to proactively expand our customer base and develop quality customers among medium to large enterprises, which resulted from our strategic transformation in recent years.

Our loans to micro and small enterprises as a percentage of our corporate loan portfolio accounted for 47.6%, 45.2%, 43.7% and 42.1% as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. Our loans to micro and small enterprises decreased by 0.8% from RMB24,357.5 million as of December 31, 2017 to RMB24,171.1 million as of December 31, 2018. Our loans to micro and small enterprises increased by 14.7% from RMB24,171.1 million as of December 31, 2018 to RMB27,727.4 million as of December 31, 2019 and further increased by 7.6% to RMB29,827.6 million as of March 31, 2020, mainly because we increased our efforts to promote micro and small enterprises in accordance with relevant national policies, resulting in the growth of loans to micro and small enterprises.

As of December 31, 2017, 2018, 2019 and March 31, 2020, the balance of loans we granted to the LGFVs was RMB16.0 million, nil, RMB70.0 million and RMB70.0 million, respectively, representing 0.03%, nil, 0.11% and 0.10% of our loans to corporate banking customers, respectively, and 0.02%, nil, 0.08% and 0.07% of our total loans, respectively. As of March 31, 2020, none of our loans to LGFVs was classified as non-performing.

Distribution of Corporate Loans by Exposure Size

The following table sets forth the distribution of our corporate loan exposure to borrowers by size as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Over RMB100 million	10,270.2	20.1%	12,967.4	24.3%	23,622.1	37.2%	30,366.2	42.9%
Over RMB50 million to RMB100 million	9,216.2	18.0%	9,667.5	18.1%	11,664.5	18.4%	12,469.7	17.6%
Over RMB10 million to RMB50 million	22,103.8	43.2%	22,176.5	41.5%	20,864.3	32.9%	20,916.8	29.5%
Over RMB5 million to RMB10 million	4,956.5	9.7%	4,424.0	8.3%	3,945.4	6.2%	3,989.8	5.6%
Up to RMB5 million	4,651.0	9.0%	4,175.2	7.8%	3,402.8	5.3%	3,048.3	4.4%
Total corporate loans	**51,197.7**	**100.0%**	**53,410.6**	**100.0%**	**63,499.1**	**100.0%**	**70,790.8**	**100.0%**

Personal Loans

As of December 31, 2017, 2018, 2019 and March 31, 2020, our personal loans accounted for 17.1%, 20.2%, 24.1% and 23.1% of our total loans to customers, respectively.

Our personal loans increased by 33.1% from RMB11,403.1 million as of December 31, 2017 to RMB15,181.0 million as of December 31, 2018, and further increased by 46.8% to RMB22,291.4 million as of December 31, 2019. Our personal loans amounted to RMB23,964.6 million as of March 31, 2020. The continued increase in our personal loans were primarily due to the continued increase in our personal loans in terms of the balance, which was primarily due to our efforts to develop and market our personal loan business during the Track Record Period, in particular, the personal business loans.

Distribution of Personal Loans by Product Type

The table below sets forth our personal loans by product type as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Residential mortgage loans	6,029.7	52.9%	7,848.1	51.7%	9,968.9	44.7%	10,523.4	43.9%
Personal consumption loans	828.7	7.3%	793.3	5.2%	1,980.5	8.9%	2,554.3	10.7%
Personal business loans	4,520.9	39.6%	6,488.4	42.8%	9,882.2	44.3%	10,372.3	43.3%
Credit cards balance	23.8	0.2%	51.2	0.3%	459.8	2.1%	514.6	2.1%
Total personal loans	**11,403.1**	**100.0%**	**15,181.0**	**100.0%**	**22,291.4**	**100.0%**	**23,964.6**	**100.0%**

Residential mortgage loans increased by 30.2% from RMB6,029.7 million as of December 31, 2017 to RMB7,848.1 million as of December 31, 2018, and further increased by 27.0% to RMB9,968.9 million as of December 31, 2019. Our residential mortgage loans amounted to RMB10,523.4 million as of March 31, 2020, representing a 5.6% increase as compared to our residential mortgage loans as of December 31, 2019. This continued increase in the balance of our residential mortgage loans was primarily attributable to our efforts to grow our residential mortgage loans, which were generally secured by the properties purchased by the borrowers with relatively low risks, which also brought us quality retail customers, as well as long-term stable returns. The increase in residential mortgage loans has been moderated and the proportion of residential mortgage loans in total personal loans decreased during the Track Record Period, mainly resulting from tighter regulatory policies on real estate market and our adoption of more prudent lending policies on such loans in accordance with our risk management requirements.

Personal consumption loans slightly decreased from RMB828.7 million as of December 31, 2017 to RMB793.3 million as of December 31, 2018, primarily due to our efforts to optimize our personal loan portfolio by controlling the extension of personal consumption loans which have relatively higher risks and focusing on developing other relatively low-risk personal loans, including residential mortgage loans. Personal consumption loans significantly increased from RMB793.3 million as of December 31, 2018 to RMB1,980.5 million as of December 31, 2019 and further increased by 29.0% to RMB2,554.3 million as of March 31, 2020, primarily due to our efforts to broaden the channels of acquiring customers, enrich personal consumption loan products, launch new online credit loan products with competitive strengths and enhance the efficiency of business processing.

Personal business loans increased by 43.5% from RMB4,520.9 million as of December 31, 2017 to RMB6,488.4 million as of December 31, 2018, and further increased by 52.3% to RMB9,882.2 million as of December 31, 2019. Our personal business loans amounted to RMB10,372.3 million as of March 31, 2020, representing a 5.0% increase as compared to our personal business loans as of December 31, 2019. The continued increase primarily reflecting our increased credit support to owners of quality individual businesses and micro and small enterprises to cater for customers' financing needs.

The balance of credit cards represented 0.2%, 0.3%, 2.1% and 2.1% of our personal loans as of December 31, 2017, 2018, 2019 and March 31, 2020. The increase was primarily due to the increased number of credit cards issued and expansion of the relevant business scale as a result of our continued efforts to develop credit card business.

Distribution of Personal Loans by Size of Loans

The following table sets forth the distribution of our outstanding personal loans by size of loans as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Over RMB0.5 million	4,351.1	38.2%	5,722.9	37.7%	6,630.6	29.7%	6,902.6	28.8%
Over RMB0.25 million to RMB0.5 million (inclusive)	4,029.6	35.3%	5,607.2	36.9%	8,693.7	39.0%	9,291.6	38.8%
Over RMB0.1 million to RMB0.25 million (inclusive)	2,333.8	20.5%	3,021.1	19.9%	3,956.6	17.8%	4,544.6	19.0%
Up to RMB0.1 million	688.6	6.0%	829.8	5.5%	3,010.5	13.5%	3,225.8	13.4%
Total personal loans	**11,403.1**	**100.0%**	**15,181.0**	**100.0%**	**22,291.4**	**100.0%**	**23,964.6**	**100.0%**

Discounted Bills

Discounted bills amounted to RMB3,917.8 million, RMB6,604.1 million, RMB6,661.1 million and RMB8,910.6 million as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively, accounting for 5.9%, 8.8%, 7.2% and 8.6% of our total loans and advances to the customers, respectively. Discounted bills increased by 68.6% from RMB3,917.8 million as of December 31, 2017 to RMB6,604.1 million as of December 31, 2018, and further increased by 0.9% to RMB6,661.1 million as of December 31, 2019. Our discounted bills amounted to

RMB8,910.6 million as of March 31, 2020, representing a 33.8% increase as compared to our discounted bills as of December 31, 2019. The continued increase primarily because we increased the size of discounted bills, taking into account various factors, including market interest rates and the relatively lower risk and higher liquidity of discounted bills.

The following table sets forth the distribution of our discounted bills by type of discounted bills as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Bank acceptance bill	3,477.3	88.8%	6,320.2	95.7%	5,793.4	87.0%	8,019.0	90.0%
Commercial acceptance bill	440.5	11.2%	283.9	4.3%	867.7	13.0%	891.6	10.0%
Total discounted bills . . .	**3,917.8**	**100.0%**	**6,604.1**	**100.0%**	**6,661.1**	**100.0%**	**8,910.6**	**100.0%**

Our discounted bills consisted of bank acceptance bills and commercial acceptance bills. Bank acceptance bills generally present lower credit risk than commercial acceptance bills, whereas commercial acceptance bills bear higher discount rates. During the Track Record Period, the changes in bank acceptance bills and commercial acceptance bills as a percentage of total discounted bills primarily reflected our adjustments to the composition of our discounted bill portfolio to balance risk and return.

Distribution of Loans by Geographical Region

We also classify loans by the geographic location of our branch offices that originated the loans. Our branches or sub-branches generally originate loans to borrowers in the region where the branches or sub-branches are located. The following table sets forth the distribution of our loans and advances to customers by geographical region as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Weihai City.	22,666.0	34.1%	25,969.4	34.5%	31,374.0	33.9%	34,037.7	32.8%
Jinan City.	8,600.8	12.9%	9,492.5	12.6%	11,807.8	12.8%	12,424.3	12.0%
Qingdao City	5,369.9	8.1%	4,859.5	6.5%	5,345.5	5.8%	6,310.8	6.1%
Jining City	3,992.8	6.0%	3,907.2	5.2%	3,862.2	4.2%	4,328.8	4.2%
Dezhou City	3,904.6	5.9%	4,517.5	6.0%	5,091.1	5.5%	5,898.5	5.7%
Yantai City	3,264.3	4.9%	3,891.5	5.2%	5,038.7	5.5%	4,931.5	4.8%
Linyi City	3,201.1	4.8%	4,860.9	6.5%	8,410.8	9.1%	8,611.8	8.3%
Dongying City	3,144.5	4.7%	3,308.4	4.4%	3,133.5	3.4%	3,248.3	3.1%
Weifang City	2,056.2	3.1%	1,981.6	2.6%	3,984.7	4.3%	9,137.8	8.8%
Zibo City	1,774.2	2.7%	1,766.4	2.4%	2,331.1	2.4%	2,496.5	2.4%
Laiwu City	1,111.4	1.6%	1,194.4	1.6%	1,062.5	1.1%	1,143.7	1.1%
Liaocheng City.	183.4	0.3%	531.4	0.7%	968.9	1.0%	1,054.4	1.0%

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Zaozhuang City	130.5	0.2%	685.2	0.9%	988.0	1.1%	1,374.4	1.3%
Tai'an City	–	–	542.9	0.7%	1,635.0	1.8%	1,705.1	1.6%
Heze City	–	–	–	–	881.2	1.0%	1,584.7	1.5%
Tianjin Municipality	7,118.9	10.7%	7,686.9	10.2%	6,536.6	7.1%	5,377.7	5.3%
Total loans and advances to customers	**66,518.6**	**100.0%**	**75,195.7**	**100.0%**	**92,451.6**	**100.0%**	**103,666.0**	**100.0%**

Distribution of Loans by Collateral

A substantial amount of our loans and advances to customers are secured by collateral, pledges or guarantees. As of December 31, 2017, 2018, 2019 and March 31, 2020, our loans and advances to customers secured by collateral, pledges or guarantees amounted to RMB60,800.4 million, RMB66,464.4 million, RMB78,770.0 million and RMB86,558.5 million, representing 91.4%, 88.4%, 85.2% and 83.5% of our total loans and advances to customers, respectively. The following table sets forth the distribution of our loans and advances to customers by type of collateral as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Pledged loans(1)								
Pledged with certificate of deposits, security deposits or bonds	1,177.2	1.8%	1,677.9	2.2%	1,478.5	1.7%	3,336.9	3.2%
Pledged with equity interests in companies	278.4	0.4%	358.2	0.5%	377.8	0.4%	641.0	0.6%
Pledged with account receivables or charging rights	1,247.7	1.9%	278.7	0.4%	1,017.9	1.1%	1,222.6	1.2%
Pledged with others(2)	939.3	1.4%	1,088.7	1.4%	1,246.2	1.3%	1,266.8	1.2%
Subtotal	**3,642.6**	**5.5%**	**3,403.5**	**4.5%**	**4,120.4**	**4.5%**	**6,467.3**	**6.2%**
Collateralized loans(1)								
Collateralized by real estate	15,053.6	22.6%	18,500.4	24.6%	18,123.8	19.6%	20,156.9	19.4%
Collateralized by equipment	632.4	1.0%	858.7	1.1%	654.8	0.7%	627.3	0.6%
Collateralized by rights(3)	3,481.6	5.2%	3,470.0	4.6%	6,515.0	7.0%	7,222.7	7.0%
Collateralized by others(4)	2,009.3	3.0%	3,423.1	4.6%	10,426.2	11.3%	10,966.3	10.6%
Subtotal	**21,176.9**	**31.8%**	**26,252.2**	**34.9%**	**35,719.8**	**38.6%**	**38,973.2**	**37.6%**
Guaranteed loans(1)								
Guarantee from companies	23,640.6	35.5%	23,754.5	31.6%	26,148.1	28.2%	23,985.2	23.2%
Guarantee from individuals	12,340.3	18.6%	13,054.2	17.4%	12,781.7	13.9%	17,132.8	16.5%
Subtotal	**35,980.9**	**54.1%**	**36,808.7**	**49.0%**	**38,929.8**	**42.1%**	**41,118.0**	**39.7%**
Discounted bills	**3,917.8**	**5.9%**	**6,604.1**	**8.8%**	**6,661.1**	**7.2%**	**8,910.6**	**8.6%**
Unsecured loans	**1,800.4**	**2.7%**	**2,127.2**	**2.8%**	**7,020.5**	**7.6%**	**8,196.9**	**7.9%**
Total loans and advances to customers	**66,518.6**	**100.0%**	**75,195.7**	**100.0%**	**92,451.6**	**100.0%**	**103,666.0**	**100.0%**

Notes:

(1) Represented the total amount of loans fully or partially secured by collateral, pledges or guarantees in each category. If a loan is secured by more than one form of security interest, the categorization is based on the primary form of security interest.

(2) Comprised wealth management, inventory, patent right, intellectual property right, trademark right and raw materials.

(3) Collateralized by rights such as land use rights, sea area use rights, forest rights.

(4) Collateralized loans that could not be registered into above mentioned categories according to relevant regulatory authorities in the PRC, mainly include motor vehicles, construction in progress and garage.

Our loan-to-value ratio refers to an indicator that compares the size of loans to the value of the collaterals or pledges securing the loans. As of December 31, 2017, 2018, 2019 and March 31, 2020, the loan-to-value ratio for our loans secured by collaterals was 39.2%, 37.1%, 34.7% and 36.8%, respectively. As of the same dates, the loan-to-value ratio for our loans secured by pledges was 42.1%, 43.8%, 49.0% and 57.8%, respectively.

We have set a cap of loan-to-value ratio for loans secured by different types of properties and closely monitored the values of collaterals or pledges in order to ensure that the relevant loans have enough coverage. For example, during the pre-loan investigation, we engaged a qualified third party appraisal agency to issue a report on the values of collaterals and review the relevant appraisal report after taking into account various factors including the market price of collaterals and conditions, in order to ensure the report reflects the actual value of collaterals. Upon granting loans, we closely monitor the conditions of relevant collaterals and conduct reassessment in a timely manner. For details on our appraisal on collaterals and pledges and the cap of loan-to-value ratio, please refer to "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Pre-loan Investigations — Appraisal for Collateral, Pledges and Guarantees" and "Risk Management — Credit Risk Management — Credit Risk Management for Personal Loans — Pre-loan Investigations".

During the Track Record Period, a majority of our loans and advances to customers were secured by guarantees, pledges or collaterals, which in aggregate amounted to RMB60,800.4 million, RMB66,464.4 million, RMB78,770.0 million and RMB86,558.5 million as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. The balance of our loans secured by collateral, pledges and guarantees increased continuously during the Track Record Period, which went in line with expansion of our loan business.

Our unsecured loans were RMB1,800.4 million, RMB2,127.2 million, RMB7,020.5 million and RMB8,196.9 million as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively, representing 2.7%, 2.8%, 7.6% and 7.9% of our total loans and advances to customers as of the respective dates. The increase in our unsecured loans was primarily due to an increase in the number of customers who satisfy our qualifications for credit loans as we continuously strive to develop high-quality customers (such as retail bank customers and lager scale state-owned enterprises with good reputation), which was in line with the regulatory policies and our risk management policy.

As of December 31, 2017, 2018, 2019 and March 31, 2020, total loans guaranteed by LGFV amounted to RMB1,108.6 million, RMB1,675.2 million, RMB2,852.3 million and RMB2,731.2 million, respectively.

Borrowers Concentration

In accordance with applicable PRC banking guidelines, we are subject to a lending limit of 10% of our net capital base to any single borrower. The following table sets forth our loan exposure to our ten largest single borrowers as of the date indicated:

	As of March 31, 2020														
	Industry(11)	Internal Credit Rating	Nature	Place of incorporation	Date of incorporation	Business relationship since(1)	Registered capital	Total assets(2)	Loan amount	% of total loans	% of net capital base(3)	Loan classification	Underlying securities(4)	Value of underlying securities(5)	Provision of impairment losses
							(in millions of RMB)	(in millions of RMB)	(in millions of RMB)						(in millions of RMB)
Group I(7)	Water conservancy, environment and public facilities management	B	State-owned	Weifang City	August 2005	September 2019	3,000.0	38,394.3(6)	1,800.0	1.74%	7.34%	Normal	Collaterals, guarantee	16.7% of the loan was guaranteed by collaterals (collaterals value was 403.0%); 83.3% of the loan was by guarantee	22.2
Borrower K(8)	Construction	BBB	State-owned	Weifang City	September 2010	December 2019	356.0	7,154.3(6)	1,500.0	1.45%	6.12%	Normal	Guarantee	Fully guaranteed	18.5
Borrower A	Lease and business services	BBB	State-owned	Jinan City	November 2017	December 2019	200.0	1,807.4	1,101.6	1.06%	4.49%	Normal	Unsecured	N/A	34.4
Borrower B	Construction	BBB	State-owned	Tai'an City	August 2017	December 2018	10,000.0	112,273.5(9)	1,000.0	0.96%	4.08%	Normal	Guarantee	Fully guaranteed	12.4
Borrower L.	Education	BBB	State-owned	Qingdao City	April 2014	February 2019	2,376.5	32,069.5(6)	999.4	0.96%	4.07%	Normal	Guarantee	Fully guaranteed	12.1
Borrower M	Electricity, gas and water production and supply	BBB	State-owned	Weifang City	February 2008	December 2019	150.0	16,511.9	900.0	0.87%	3.67%	Normal	Guarantee	Fully guaranteed	11.4
Borrower C	Lease and business services	BBB	State-owned	Yantai City	January 2019	June 2019	1,000.0	1,638.2	826.8	0.80%	3.37%	Normal	Unsecured	N/A	26.3
Borrower D	Lease and business services	BBB	State-owned	Weihai City	January 2016	December 2018	200.0	3,458.7	800.0	0.77%	3.26%	Normal	Collaterals, guarantee	100.0% of the loan was secured by collaterals (collaterals value was 104.3%); 75.0% of the loan was secured by guarantee	9.9
Borrower E(10)	Education	B	Privately-owned	Weihai City	April 2018	December 2018	211.4	1,100.6	800.0	0.77%	3.26%	Normal	Pledge	100.0% of the loan was secured by pledge (pledge value was 172.7%)	4.9
Borrower G	Lease and business services	BBB	State-owned	Zibo City	November 2015	March 2017	1,330.0	2,096.2	700.0	0.68%	2.85%	Normal	Pledge, guarantee	100.0% of the loan was secured by pledge (pledge value was 229.6%); fully guaranteed	3.9
Total									**10,427.8**	**10.06%**	**42.51%**				**156.0**

Notes:

(1) This referred to the date when we started our business relationship with each of the respective borrowers.

(2) There is no publicly available financial information on these borrowers and the financial information presented below was based on the financial statements as of March 31, 2020 submitted by the borrower and in accordance with the PRC GAAP.

(3) Represents loan balances as a percentage of our net capital base (also referred to in this prospectus as "regulatory capital"), calculated in accordance with the requirements of the Capital Administration Measures and based on our financial statements prepared in accordance with the PRC GAAP. For a calculation of our net capital base as of March 31, 2020, please see "Financial Information — Capital Resources — Capital Adequacy".

(4) Referred to relevant loan whether it was fully or partially secured by pledges, collateral, or guarantees.

(5) Represented (i) the percentage of the value of the underlying assets pledged against the outstanding balance of the relevant loan as of March 31, 2020; or (ii) the percentage of the value of the collaterals secured against the outstanding balance of the relevant loan as of March 31, 2020; or (iii) the percentage of the loan being guaranteed against the outstanding balance of the relevant loan as of March 31, 2020.

(6) This represented the total assets as of December 31, 2019. There is no available information for total assets as of March 31, 2020.

(7) As of March 31, 2020, Group I borrower was one of our top ten largest single borrower and at the same time, one of the top ten largest group borrower. As of the Latest Practicable Date, Group I held 39.99% of the shares in Shandong Expressway Environmental Technology Co., Ltd. ("山東高速環保科技有限公司") (the "**Shandong Expressway Environmental**"), one of our connected persons. As at the Latest Practicable Date, Shandong Expressway Environmental is owned as to 60.01% by Shandong Hi-Speed Investment Development Company Limited (山東高速投資發展有限公司), a wholly-owned subsidiary of Shandong Hi-Speed (one of our substantial shareholders). Shandong Expressway Environmental is mainly involved in the research and development of water treatment related technologies and environmental protection.

(8) As of March 31, 2020, one of the shareholders of Borrower K held 40.0% of the shares in Jinghai Group Limited Company ("靖海集團有限公司") (the "**Jinghai Group**") and Jinghai Group held 0.52% of our Shares.

(9) This represented the total assets as of September 30, 2019. There is no available information for total assets as of March 31, 2020.

(10) Borrower E is a project company established for the construction of a local urban cultural and sports education infrastructure related project. Borrower E obtained a loan from us for the construction of schools, sports education related facilities under a public-private partnership project and according to the "Notice of the People's Bank of China on Submitting Statistics of Medium- and Long-Term Loans by Category to Actual Investment"《中國人民銀行關於按實際投向分類報送中長期貸款統計數據的通知》issued by the PBoC, we categorized the loan under education industry.

(11) We categorize borrower's industry based on the "Notice of the People's Bank of China on Submitting Statistics of Medium- and Long-Term Loans by Category to Actual Investment"《中國人民銀行關於按實際投向分類報送中長期貸款統計數據的通知》issued by the PBoC.

In accordance with applicable PRC banking guidelines, our credit exposure to any single group borrower is limited to not more than 15% of our net capital base. The following table sets forth, as of the date indicated, our credit exposure to our ten largest group borrowers:

	As of March 31, 2020														
	Industry[18]	Internal Credit Rating	Nature	Place of incorporation	Date of incorporation	Business relationship since[1]	Registered capital	Total assets[2]	Loan amount	% of net capital base[3] (amount)	Credit exposure[4]	% of credit exposure[5] to total loans	% of net capital base[4] (credit exposure)	Loan classification	Value of underlying securities[6]	Provision of impairment losses
							(in millions of RMB)	(in millions of RMB)	(in millions of RMB)							(in millions of RMB)
Group I[8]	Water conservancy, environment and public facilities management	B	State-owned	Weifang City	August 2005	January 2018	3,000.0	38,394.3[7]	2,270.0	9.25%	2,100.0	2.03%	8.56%	Normal	13.2% of the loan was secured by collaterals (collaterals value was 403.0%); 20.7% of the loan was secured by pledge (pledge value was 106.4%); 66.1% of the loan was secured by guarantee	25.1
Group K	Construction	BBB	State-owned	Weifang City	September 2016	February 2017	5,000.0	99,528.7[7]	1,955.0	7.97%	1,955.0	1.89%	7.97%	Normal	Fully guaranteed	23.7
Group C	Construction	BBB	State-owned	Tai'an City	August 2017	December 2018	10,000.0	112,273.5[15]	1,500.0	6.12%	1,797.0	1.73%	7.33%	Normal	33.33% of the loans are guaranteed by collateral (collateral value is 73.83%); 100.0% of the loans was fully guaranteed	18.5
Group A	Construction	BB	State-owned	Weihai City	July 2003	May 2009	100.4	24,187.5[7]	20.0	0.08%	1,773.8	1.71%	7.23%	Normal	Fully guaranteed	0.2
Group L[9]	Lease and business services	BB	State-owned	Jinan City	June 2017	March 2017	45,000	236,945.5	1,020.0	4.16%	1,550.0	1.49%	6.32%	Normal	Fully guaranteed	12.4
Group F[10]	Manufacturing	BBB	Privately-owned	Weihai City	January 1995	June 1995	60.0	2,508.4	1,010.0	4.12%	1,480.0	1.43%	6.03%	Normal	28.7% of the loan was secured by collaterals (collaterals value was 196.5%); 29.7% of the loan was secured by pledge (pledge value was 104.3%); 58.4% of the loan was secured by guarantee	3.7
Group M[11]	Construction	BBB[13]	State-owned	Tianjin Municipal	May 2009	March 2020	5,100.0	42,445.8	—	0.00%	1,400.0	1.35%	5.71%	Normal	N/A	N/A[14]
Group D[12]	Real estate	BB	Privately-owned	Tianjin Municipal	February 2004	September 2010	143.3	7,244.4[7]	200.0	0.82%	1,264.8	1.22%	5.16%	Normal	Fully guaranteed	2.7
Group E[11]	Real estate	BBB[13]	Privately-owned	Jinan City	April 2010	December 2017	957.4	8,102.7[17]	—	0.00%	1,200.0	1.16%	4.89%	Normal	N/A	N/A[14]
Group O	Lease and business services	BBB	State-owned	Weihai City	April 1994	May 2003	400.0	24,345.6	995.6	4.06%	1,181.2	1.14%	4.82%	Normal	Fully guaranteed	12.2
Total									**8,970.6**	**36.58%**	**15,701.8**	**15.15%**	**64.02%**			**98.5**

Notes:

(1) This referred to the date when we started our business relationship with each of the respective borrowers.

(2) There is no publicly available financial information on these borrowers and the financial information presented below was based on the financial statements as of March 31, 2020 submitted by the borrower and in accordance with the PRC GAAP.

(3) Represents loan balances as a percentage of our net capital base (also referred to in this prospectus a "regulatory capital"), calculated in accordance with the requirements of the Capital Administration Measures and based on our financial statements prepared in accordance with the PRC GAAP. For a calculation of our net capital base as of March 31, 2020, please see "Financial Information — Capital Resources — Capital Adequacy".

(4) Calculated pursuant to the applicable CBRC requirements by (i) adding up all on-balance-sheet credit amounts and off-balance-sheet credit amounts in respect of each group borrower; and (ii) deducting the total amount of security deposits, certificates of deposit pledged and government bonds in respect of each group borrower.

In terms of on-balance-sheet credit amounts, this included loan extended through our Bank, discounted bill, loan extended though our SPV Investment and debt securities held by us which were issued by the relevant group borrower. For more details of the loan extended through our SPV Investment and debt securities held by us which were issued by the relevant group borrower, please see note (16) below.

In terms of off-balance-sheet credit amounts as of March 31, 2020, Group D borrower had RMB60.0 million bank acceptance bill; Group F had RMB240.0 million bank acceptance bill; Group I borrower had RMB27.0 million bank acceptance bill. In terms security deposits, certificates of deposit pledged or government bonds, Group I had security deposits in the sum of RMB497.0 million with us; Group F had security deposits in the sum of RMB120.0 million with us; Group D had a security deposits in the sum of RMB30.0 million with us.

(5) Represents credit exposure as a percentage of our net capital base (also referred to in this prospectus as "regulatory capital"), calculated in accordance with the requirements of the Capital Administration Measures and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our net capital base as of March 31, 2020, please see "Financial Information — Capital Resources — Capital Adequacy".

(6) Represented (i) the percentage of the value of the underlying assets pledged against the outstanding balance of the relevant loan as of March 31, 2020; or (ii) the percentage of the value of the collaterals secured against the outstanding balance of the relevant loan as of March 31, 2020; or (iii) the percentage of the loan being guaranteed against the outstanding balance of the relevant loan as of March 31, 2020.

(7) This represented the total assets as of December 31, 2019. There is no available information for total assets as of March 31, 2020.

(8) As of the Latest Practicable Date, Group I held 39.99% of the shares in Shandong Expressway Environmental Technology Co., Ltd. ("山東高速環保科技有限公司") (the "**Shandong Expressway Environmental**"), one of our connected person. Shandong Expressway Environmental is mainly involved in the research and development of water treatment related technologies and environmental protection.

(9) As of March 31, 2020, the shareholder of Group L borrower held 80.0% of the shares of China National Heavy Duty Truck Group Co., Ltd. ("中國重型汽車集團有限公司") (the "**China Truck Group**") and China Truck Group held 4.89% of our Shares.

(10) As of the Latest Practicable Date, Group F is interested in 47,753,120 Shares, approximately 0.96% of our Shares.

(11) Group M and Group E are end borrowers in our SPV Investment. For details of our SPV Investment, please see "— Assets — Financial Investments — Distribution of Financial Investments by Product Type".

(12) Group D borrower has extended its loans at the maturity date for one year from February 28, 2020 to February 28, 2021 due to cash flow and liquidity concern brought by the impact of COVID-19 and the quarantine measures adopted by the PRC Government in curbing the spread of COVID-19 outbreak. Such quarantine measures had suspended a good proportion of economics activities in the PRC which caused Group D borrower to delay production and resumption of works and sales during the outbreak. As of Latest Practicable Date, Group D borrower has yet to default or delay in its repayment to us since February 28, 2020.

(13) As these are end borrowers in our SPV Investment, we do not assign any internal credit rating to them as they did not obtain any loan through our Bank or our Group. However, should we rate them in accordance with our internal credit rating system, they would achieve "BBB" rating based on our rating system.

(14) As these are financial investments measured at fair value through profit or loss, there is no provision of impairment losses under IFRS 9.

(15) This represented the total assets as of September 30, 2019. There is no available information for total assets as of March 31, 2020.

(16) The following table set forth loan extended through our SPV Investment and debt securities held by us which were issued by the relevant group borrower as of the date indicated:

	SPV Investment	Debt securities	Total
	(in millions of RMB)		
Group I	300.0	–	300.0
Group K	–	–	–
Group C	–	297.0	297.0
Group A	1,624.0	129.8	1,753.8
Group L	300.0	230.0	530.0
Group F	350.0	–	350.0
Group M	1,400.0	–	1,400.0
Group D	1,034.8	–	1,034.8
Group E	1,200.0	–	1,200.0
Group O	–	185.7	185.7

(17) This represented the total assets as of February 29, 2020. There is no available information for total assets as of March 31, 2020.

(18) We categorize borrower's industry based on the "Notice of the People's Bank of China on Submitting Statistics of Medium- and Long-Term Loans by Category to Actual Investment"《中國人民銀行關於按實際投向分類報送中長期貸款統計數據的通知》issued by the PBoC.

Save for Borrower K and certain group borrowers (i.e., Group I, Group F and Group L) and other than the general banking business (such as bank loans, bank acceptance bills, investment in debt securities and SPV Investment, credit and debit cards, wealth management products, savings), to the best knowledge of the Bank, none of our ten largest single borrowers and ten largest group borrowers, their respective shareholders, directors, senior management or any of their respective associates has any other past or present financing, business, shareholding or employment relationship with the Bank, its subsidiary, director, shareholders, senior managements or any of their respective associates.

We closely monitor and control the credit concentration risks arising from our business expansion to comply with the relevant laws and regulations. In particular, we have implemented specific requirements at different steps of our risk management procedures, including pre-loan investigation, credit review and approval and post-disbursement risk monitoring and alert, to ensure that the balance of loans granted to a single borrower does not exceed 10% of our net capital base. For details on how we manage our credit concentration risks, please also see "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Portfolio Management — Credit Concentration Management". In addition, there was no co-guarantee or cross-guarantee among our ten largest single borrowers and ten largest group borrowers in respect of the loan we granted to them as of March 31, 2020 and we have not experienced any delay or default in repayment from our ten largest single borrowers or ten largest group borrowers as of March 31, 2020 during the Track Record Period and up to the Latest Practicable Date.

Maturity Profile of Loan Portfolio

The following table sets forth our loan products by remaining maturity as of the date indicated:

	As of March 31, 2020					
	Overdue[(1)]	Due in 3 months or less	Due over 3 months up to 12 months	Due over 1 year up to 5 years	Due in more than 5 years	Total
	(in millions of RMB)					
Corporate loans						
Working capital loans	3,704.8	9,725.3	22,906.8	13,585.5	126.8	50,049.2
Fixed asset loans	312.0	29.6	980.0	7,939.2	9,491.6	18,752.4
Other corporate loans	203.9	308.2	1,477.1	—	—	1,989.2
Subtotal	**4,220.7**	**10,063.1**	**25,363.9**	**21,524.7**	**9,618.4**	**70,790.8**
Personal loans						
Residential mortgage loans	7.7	0.4	6.3	248.1	10,260.9	10,523.4
Personal consumption loans	16.8	156.9	1,079.2	1,301.1	0.3	2,554.3
Personal business loans	137.0	502.2	2,113.1	5,509.2	2,110.8	10,372.3
Credit card balance	2.8	511.8	—	—	—	514.6
Subtotal	**164.3**	**1,171.3**	**3,198.6**	**7,058.4**	**12,372.0**	**23,964.6**

	As of March 31, 2020					
	Overdue(1)	Due in 3 months or less	Due over 3 months up to 12 months	Due over 1 year up to 5 years	Due in more than 5 years	Total
	(in millions of RMB)					
Discounted bills						
Bank acceptance bills	—	1,420.2	6,598.8	—	—	8,019.0
Commercial acceptance bills	—	103.0	788.6	—	—	891.6
Subtotal	**—**	**1,523.2**	**7,387.4**	**—**	**—**	**8,910.6**
Total loans and advances to customers	**4,385.0**	**12,757.6**	**35,949.9**	**28,583.1**	**21,990.4**	**103,666.0**

Note:

(1) Represented the balance of principal of the loans on which principal or interest was overdue as of March 31, 2020.

As of March 31, 2020, our corporate loans due within one year amounted to RMB35,427.0 million, representing 50.0% of our total corporate loans, primarily consisting of working capital loans, which generally have terms of one year or less. As of March 31, 2020, our corporate loans due over one year amounted to RMB31,143.1 million, representing 44.0% of our total corporate loans, consisting primarily of fixed-asset loans, which generally have terms of more than one year.

As of March 31, 2020, our personal loans due over five years amounted to RMB12,372.0 million, representing 51.6% of our total personal loans, consisting primarily of residential mortgage loans, which generally have longer terms than five years.

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. Prior to July 20, 2013, PRC commercial banks could set interest rates on loans within a permitted range of PBoC benchmark interest rates. On July 20, 2013, the PBoC removed the lower limits which was 70% of PBoC benchmark loan interest rates for loans (excluding residential mortgage loans), allowing financial institutions to set interest rates freely. On August 20, 2019, the PBoC announced to reform the mechanism used to establish the loan prime rate ("LPR"), and commercial banks shall set interest rates on new loans by mainly referring to the LPR. According to the Announcement [2019] No. 16 of the PBoC — Announcement On the Interest Rate of the Newly-granted Commercial Personal Housing Loans (《中國人民銀行公告[2019]第16號-新發放商業性個人住房貸款利率公告》) which took effect on October 18, 2019, the interest rates of commercial personal housing loans for first-time home buyers must not be lower than LPR of the corresponding term, and interest rates of commercial personal housing loans for second home buyers must not be lower than the LPR of the corresponding term plus 60 basis points.

Asset Quality of Our Loan Portfolio

We monitor the asset quality of our loans to customers through our credit-asset loan classification system. We classify our loans to customers using a five-category loan classification system, which complies with the CBIRC's guidelines. Please see "Supervision and Regulation — Loan Classification, Allowances and Write Offs — Loan Classification".

Since early 2020, the PRC Government has introduced a wide range of fiscal and monetary easing initiatives aimed at countering the impact of the COVID-19 pandemic, including encouraging banks and financial institutions to enhance their credit support to affected enterprises and individuals. For details of the initiatives and supporting measures launched by the PRC Government, please see "Summary — Recent Developments". Please also see "Financial Information — Recent Development and No Material Adverse Change" and "Risk Factors — Risks Relating to Our Business — The recent outbreak of the contagious COVID-19 may have an adverse effect on our business, financial condition and results of operations".

Loan Classification Criteria

In determining the classification of our loan portfolio, we apply a series of criteria derived from the *Guidelines of Risk-based Classification of Loans* (《貸款風險分類指引》). These criteria are designed to assess the likelihood of repayment by the borrower and the collectability of the principal and interest on the loan.

Corporate Loans

The clarification criteria of our corporate loans take into consideration a number of factors to the extent applicable, including but not limited to (i) the borrower's ability to repay the loans; (ii) the borrower's repayment history; (iii) the borrower's repayment intention; (iv) the profitability of the underlying project; (v) the guarantees of the loans; (vi) the borrower's legal responsibility; and (vii) our credit management. The key factors behind our loan classification criteria are listed below. This is not intended to be an exhaustive list of all factors taken into account in classifying our loans. Please see "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Post-disbursement Management" for additional information.

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 such as:

- borrower's operations and business are stable, and its key operational indicators have no significant changes which may adversely affect repayment of the loans; and
- the borrower repays the loans with cash generated from its normal operating activities, and the cash flow is stable.

Special Mention. Loans should be classified as special mention if although the borrower is able to service its loans, repayment may be adversely affected by certain factors, including:

- the principal or any interest payments are overdue;
- there have been early signs of insufficient working capital of the borrower, such as delay in repayment and decreases in net cash flows;
- the borrower's operational conditions begin to deteriorate, which, although they have not affected the repayment, may adversely affect the borrower's financial conditions if such situation continues;
- there have been issues in relation to guarantees for the loans, such as decreases in the value of collaterals (pledges) and issues regarding the right of control over the collaterals (pledges);
- there have been suspicious signs in the borrower's credit standing, such as failure to obtain proper information and documents in a timely manner, non-cooperation of the borrower or having difficulties in contacting the borrower;
- there have been restructuring of the borrower or guarantor (contracting, division, reorganization, etc.) or there have been material changes in the borrower's substantial shareholders, affiliated entities or parent companies or subsidiaries that may affect the borrower's repayment ability;
- there have been diversion of loans for other purposes which may affect normal repayment; and
- other significant events that may affect the borrower's financial condition.

Substandard. Loans should be classified as substandard if the borrower's ability to service its loans is significantly in question, as it cannot rely entirely on normal business revenues to repay the principal and interest, and losses may ensue even if we invoke the collateral or guarantees. Loans in the substandard category generally demonstrate the following characteristics:

- the loan principal and interest are overdue for more than 90 days;
- the borrower experiences significant operational problems, and its key indicators begin to deteriorate, thereby rendering the borrower unable to repay the loan principal or interest normally and requiring the execution of guarantees for repayment;
- the value of the guarantee is not sufficient to cover the principal and interest of the loan;
- the borrower has a poor willingness to repay and there is a clear attempt to escape debt;
- the borrower uses improper means such as concealing facts to obtain loans which may affect the normal repayment;
- other non-financial events affecting the repayment of the borrower;
- other circumstances that may cause a loss of principal and interest on the loan; and
- other circumstances under which the loans need to be classified as loans in the substandard category.

Doubtful. Loans should be classified as doubtful if the borrower cannot repay the principal and interest in full and significant losses will be caused even if we invoke the collateral or guarantees. Loans in the doubtful category generally demonstrate the following characteristics:

- the borrower has suffered severe losses;
- the value of guarantees for the loan is far from adequate;
- the borrower is known to be missing and dead;
- it is difficult to claim repayment even under the circumstances where the borrower is known to evade its debts deliberately;
- other circumstances that will definitely cause a large loss of principal and interest on the loan; and
- other circumstances under which the loans need to be classified as loans in the doubtful category.

Loss. Loans should be classified as loss if only a minimal portion or none of the principal and interest can be recovered after all possible measures have been taken and all legal remedies have been exhausted. Loans in the loss category generally demonstrate the following characteristics:

- the borrower or the guarantor has been declared bankrupt or/and the loans thereof remain unpaid after the pursuit of recovery;
- the loan is irrecoverable upon enforcement by the court;
- the loan is irrecoverable or only partially recoverable as recognized on the extent of guarantees based on the net assets of the corporate borrower;
- the loan contract has exceeded the time limit for litigation and the borrower will not confirm any documents claiming the creditor's rights and the loan cannot be recovered through all possible measures and necessary legal procedures;
- the loan contract (agreement) has not been signed with the borrower, or the original loan contract (agreement) has been lost, and the borrower will not confirm the loan;
- the borrower is no longer able to repay the due debts. The bank shall, based on the fair value of the market-recognized market value of the debt-asset assets obtained in accordance with the law, deduct the receipt of the debt-asset assets, which is less than the balance of the creditor's rights, and shall not be recovered after recovery;
- the loans approved for write-off are in accordance with relevant national regulations;
- the loan cannot be recovered after we demand repayment from the debtor and guarantor that have completely suspended operations and their business licenses have been revoked by the relevant administrative authority; and
- other circumstances under which the loans need to be classified as loans in the loss category.

Personal Loans (Excluding Credit Card Overdrafts)

Personal loans refer to residential and commercial housing mortgage loans, personal consumption loans and personal business loans. Residential mortgage loans mainly include loans for purchasing new and second-hand houses. Personal consumption loans mainly include loans for home renovation, purchase of home appliances, furniture and vehicles and education loans. Personal business loans mainly include loans to private or individual business owners, or owners of micro and small enterprises and other self-employed venture customers for business purposes.

We use the number of overdue days and the type of security to form a risk classification matrix, and classify risks according to this matrix. Personal business loans can be classified according to the overdue time with reference to the risk classification matrix while taking into account the risk characteristics and security factors of borrowers.

When classifying the risks of personal residential and commercial housing mortgage loans and personal consumption loans, we can use the batch-based processing method to classify such risks according to the respective characteristics and overdue time of such loans based on the fundamental principles of classification standards.

As of March 31, 2020, the following table sets forth the preliminary five-level classification of our loans to micro and small enterprises and personal businesses by overdue time and type of security. Our Bank adjusts the classification of loans to micro and small enterprises and individuals based on the preliminary five-level classification with reference to the details of the borrowers.

	Overdue by					
Type of collateral	**Current**	**1 day-30 days**	**31-90 days**	**91-180 days**	**181-360 days**	**Over 361 days**
Pledged loans	Normal	Normal	Normal	Special mention	Substandard	Doubtful
Collateralized loans	Normal	Normal	Special mention	Special mention	Substandard	Doubtful
Guaranteed loans	Normal	Normal	Special mention	Substandard	Doubtful	Loss
Credit loans	Normal	Special mention	Substandard	Doubtful	Doubtful	Loss

Credit Card Overdrafts

As of March 31, 2020, our Bank consider the overdue period when adopting loan classification criteria for credit card overdrafts. The following table sets forth the five-level classification of our credit card overdraft business in respect of the overdue period:

	Overdue by
Normal	0 day
Special mention	1—90 days
Substandard	91—120 days
Doubtful	121—180 days
Loss	Over 180 days

Distribution of Loans by Loan Classification

Our NPLs are classified as either substandard, doubtful or loss, as applicable. The following table sets forth the distribution of our loan portfolio by our credit classification system as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Distribution of Loan Portfolio								
Normal	62,713.9	94.3%	69,261.0	92.1%	85,436.0	92.4%	95,853.1	92.5%
Special mention	2,826.3	4.2%	4,564.4	6.1%	5,347.3	5.8%	5,942.3	5.7%
Subtotal	**65,540.2**	**98.5%**	**73,825.4**	**98.2%**	**90,783.3**	**98.2%**	**101,795.4**	**98.2%**
Substandard	971.1	1.5%	1,364.9	1.8%	1,635.6	1.8%	1,838.7	1.8%
Doubtful	7.3	0.0%	5.4	0.0%	32.7	0.0%	31.9	0.0%
Loss	—	—	—	—	—	—	—	—
Subtotal	**978.4**	**1.5%**	**1,370.3**	**1.8%**	**1,668.3**	**1.8%**	**1,870.6**	**1.8%**
Total loans and advances to customers	**66,518.6**	**100.0%**	**75,195.7**	**100.00%**	**92,451.6**	**100.00%**	**103,666.0**	**100.0%**
NPL ratio(1)		**1.47%**		**1.82%**		**1.80%**		**1.80%**

Note:

(1) Calculated by dividing total NPLs by gross loans and advances to customers.

The following table sets forth the distribution of our loans and advances to customers by business line and by our credit classification system as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total(3)	Amount	% of total(3)	Amount	% of total(3)	Amount	% of total(3)
	(in millions of RMB, except percentages)							
Corporate loans								
Normal	47,494.5	71.5%	47,566.0	63.3%	56,601.9	61.2%	63,117.2	60.9%
Special mention	2,808.0	4.2%	4,545.3	6.0%	5,322.3	5.8%	5,910.9	5.7%
Substandard	895.2	1.3%	1,299.3	1.7%	1,545.3	1.7%	1,733.1	1.7%
Doubtful	—	—	—	—	29.6	0.0%	29.6	0.0%
Loss	—	—	—	—	—	—	—	—
Subtotal	**51,197.7**	**77.0%**	**53,410.6**	**71.0%**	**63,499.1**	**68.7%**	**70,790.8**	**68.3%**
NPL ratio of corporate loans(1)		**1.75%**		**2.43%**		**2.48%**		**2.49%**
Personal loans								
Normal	11,301.6	17.0%	15,090.9	20.1%	22,173.0	24.0%	23,825.3	23.0%
Special mention	18.3	0.0%	19.1	0.0%	25.0	0.0%	31.4	0.0%
Substandard	75.9	0.1%	65.6	0.1%	90.3	0.1%	105.6	0.1%
Doubtful	7.3	0.0%	5.4	0.0%	3.1	0.0%	2.3	0.0%
Loss	—	—	—	—	—	—	—	—
Subtotal	**11,403.1**	**17.1%**	**15,181.0**	**20.2%**	**22,291.4**	**24.1%**	**23,964.6**	**23.1%**
NPL ratio of personal loans(1)		**0.73%**		**0.47%**		**0.42%**		**0.45%**
Discounted bills								
Normal	3,917.8	5.9%	6,604.1	8.8%	6,661.1	7.2%	8,910.6	8.60%
Subtotal	**3,917.8**	**5.9%**	**6,604.1**	**8.8%**	**6,661.1**	**7.2%**	**8,910.6**	**8.60%**
NPL ratio of discounted bills(1)		**—**		**—**		**—**		**—**
Total loans and advances to customers	**66,518.6**	**100.0%**	**75,195.7**	**100.0%**	**92,451.6**	**100.0%**	**103,666.0**	**100.0%**
NPL ratio(2)		**1.47%**		**1.82%**		**1.80%**		**1.80%**

Notes:

(1) Calculated by dividing NPLs in each business line by gross loans and advances to customers in that business line.

(2) Calculated by dividing total NPLs by gross loans and advances to customers.

(3) Calculated by dividing gross loans to customers in each category by total gross loans and advances to customers.

Our NPL ratio was 1.47%, 1.82%, 1.80% and 1.80% as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively, which is lower than the average NPL ratio of all PRC banks as of relevant dates, being 1.74%, 1.83%, 1.86% and 1.91%, respectively.

Our NPL ratio increased from 1.47% as of December 31, 2017 to 1.82% as of December 31, 2018, mainly because (i) as a provincial city commercial bank in Shandong Province, our NPL ratio is affected by a broad range of factors, including market conditions and economic structure of Shandong Province. In recent years, Shandong Province has accelerated the conversion of old growth drivers into new growth drivers, promoted the transformation and upgrading of traditional industries, and focused on accelerating the withdrawal of industries with backward and inefficient production capacity such as steel, coal, electrolytic aluminium, tires, cement, etc., as per the PRC Government's initiative and policies on industrial structure adjustment in order to create space for advanced production capacity industries. As Shandong Province's traditional industries account for a high proportion of industry in the province, under the influence of PRC's economic slowdown since 2018, this has caused changes to the operating environment of some of our borrowers (primarily involved in backward production capacity industries and traditional industries), which led to intensified market competition and further resulted in deterioration of such borrower's operation conditions and repayment ability to us; and (ii) we adopted cautious risk control measures in accordance with regulatory development and risk management policies, in particular, we started to categorize loans overdue by over 90 days as NPLs in 2018, which was a new standard issued by CBIRC that requires banks to classify all loans overdue by over 90 days as NPLs by the end of 2018. As a result, our loans overdue by over 90 days had been fully categorized as NPLs in 2018 and 2019. For details of the industry average, please see "Industry Overview — PRC Banking Industry".

Our NPL ratio decreased slightly from 1.82% as of December 31, 2018 to 1.80% as of December 31, 2019, mainly because we strengthened our credit risk management to improve our asset quality and carried out the process of collection and write-off of NPLs in accordance with relevant regulatory policies.

Our NPL ratio remained steady at 1.80% as of March 31, 2020.

Loans Classified as Special Mention

As of December 31, 2017, 2018, 2019 and March 31, 2020, the balance of our loans classified as special mention was RMB2,826.3 million, RMB4,564.4 million, RMB5,347.3 million and RMB5,942.3 million, respectively, representing 4.2%, 6.1%, 5.8% and 5.7%, respectively, of our total loans and advances to customers. The continuous increase in our balance of our loans to customers classified as special mention was because (i) loans granted to some companies were classified as special mention as the financial conditions and repayment abilities of these companies were adversely affected by the slowdown in economic growth; and (ii) we strengthened our risk control implementation measures and prudently downgraded certain loans from normal to special mention where the relevant borrowers are expected to encounter changes in their operating conditions in the future, although they have not previously incurred overdue or default.

The following table sets forth the distribution of our loans classified as special mention to customers by collateral as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Pledged loans	2.0	0.1%	2.2	0.0%	—	—	10.0	0.2%
Collateralized loans	165.5	5.9%	427.9	9.4%	877.2	16.4%	1,087.0	18.3%
Guaranteed loans	2,658.8	94.0%	4,134.2	90.6%	4,469.5	83.6%	4,838.7	81.4%
Unsecured loans	—	—	0.1	0.0%	0.6	0.0%	6.6	0.1%
Discounted bills	—	—	—	—	—	—	—	—
Total loans as special mention to customers	**2,826.3**	**100.0%**	**4,564.4**	**100.0%**	**5,347.3**	**100.0%**	**5,942.3**	**100.0%**

Changes in Asset Quality of Our Loans

The following table sets forth the changes in our NPLs for the periods indicated:

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	(in millions of RMB, except percentages)			
Beginning of the year/period	**833.5**	**978.4**	**1,370.3**	**1,668.3**
Increases	**860.8**	**2,746.5**	**3,762.4**	**790.8**
Decreases	**(715.9)**	**(2,354.6)**	**(3,464.4)**	**(588.5)**
Recovery(1)	(128.2)	(342.7)	(435.8)	(174.2)
Upgrade(2)	(4.1)	(1.6)	(102.6)	(30.8)
Payment in kind(3)	(82.4)	—	(2.1)	—
Write-off(4)	(128.9)	(938.7)	(848.2)	(294.1)
– write-off due to non-collectible	(9.9)	(258.9)	(290.2)	(254.7)
– write-off due to transfer to third parties(5)	(119.0)	(679.8)	(558.0)	(39.4)
Transfer(6)	(372.2)	(1,068.7)	(1,661.0)	(89.4)
Debt-to-equity swap	—	—	(104.9)(7)	—
Debt-to-trust beneficiary rights swap	—	—	(309.8)(7)	—
Exchange differences	(0.1)	(2.9)	—	—
End of the year/period	**978.4**	**1,370.3**	**1,668.3**	**1,870.6**
NPL ratio	**1.47%**	**1.82%**	**1.80%**	**1.80%**

Notes:

(1) "Recovery" referred to loan repayment recovery through legal proceedings against the defaulted borrowers, the guarantors, telephone or door-to-door collection (collectively known as "**Proceedings and Collections**"), and the amounts herein represented the amounts we recovered through such Proceedings and Collections.

(2) "Upgrade" referred to the reclassification of non-performing loans (from substandard or doubtful or loss) to either normal or special mention (in accordance with the loan classification criteria) due to the improvement in the defaulted borrower's financial position and circumstances.

(3) "Payment in kind" referred to asset recovered through underlying collateral or pledge assets or other assets owned by the defaulted borrowers (which were not used as a security as part of defaulted borrowers' loan applications), the guarantors or third parties either through (i) mutual agreement between us, the defaulted borrowers or the guarantors or the owners of the assets; or (ii) court's ruling or arbitration's award. The amounts herein represented the value of the assets recovered.

(4) As of December 31, 2017, 2018, 2019 and March 31, 2020, the NPLs from borrowers in manufacturing industry and wholesale and retail industry accounted for 80.5% and 11.0%, 76.7% and 17.5%, 76.0% and 21.1%, 19.7% and 77.8%, respectively, of the total amount of NPLs that we written-off in that particular year.

(5) For transferring of non-performing assets to third party(ies) at a discount to book value, with respect to the difference between the consideration of the transfer and the principal balance of such non-performing assets, we recognize such differences as bad debts and write-off such bad debts in accordance with the relevant policy issued by MOF and our relevant internal policies. For details of how we write-off our bad debts, please see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans – Non-performing Assets Management – Write-off of Bad Debts".

(6) This is the amount we received by transferring our non-performing assets to third party(ies) either at book value or at a discount to book value. As of December 31, 2017, 2018, 2019 and March 31, 2020, the NPLs from borrowers in manufacturing industry and wholesale and retail industry accounted for 67.3% and 22.6%, 65.4% and 23.7%, 67.9% and 22.6%, 96.5% and nil, respectively, of our total NPLs that we have transferred in that particular year. The total amount we have received from transferred of our non-performing assets to third parties increased by RMB696.5 million from RMB372.2 million in 2017 to RMB1,068.7 million in 2018, and further increased by RMB592.3 million to RMB1,661.0 million in 2019, primarily because of the increase in our NPLs during the Track Record Period. As our NPLs increased, in line with our risk management policies, we actively seek opportunities to dispose of our NPLs to third parties so as to achieve rapid recovery of funds as well as to maximize the amount of funds that we can recover from our NPLs. The increase in NPLs was primarily caused by the (i) deteriorated financial positions and weakened repayment ability of some of our borrowers brought by the economic slowdown and industrial structure adjustment in the PRC; and (ii) our adoption of cautious risk control measures in accordance with the regulatory development and risk management policies, in particular, we started to categorize loans overdue by more than 90 days as NPLs in 2018 in order to comply with the new standard issued by the CBIRC that requires banks to classify all loans overdue by more than 90 days as NPLs by the end of 2018. For details, please see "Assets and Liabilities – Assets – Asset Quality of Our Loan Portfolio – Distribution of NPLs by Product Type".

(7) During the Track Record Period, we were involved in a disposal of NPLs transaction involving an aggregated principal sum of RMB654.3 million from six corporate borrowers predominantly operated in the manufacturing industry (the "**Affected Corporate Borrowers**"), all under a same group. In January 2019, Tianjin High People's Court and the Tianjin Second Intermediate People's Court approved and endorsed a restructuring plan involving 48 corporate companies including the Affected Corporate Borrowers (the "**Restructuring Plan**"). Under the Restructuring Plan approved and endorsed by the PRC courts, we recovered RMB1.5 million in cash, an outstanding debt in the sum of RMB7.5 million with the new company formed under the Restructuring Plan, debt-to-equity swap in the sum of RMB104.9 million (the "**Equity Swap A**") (representing a recovery rate of 31.3%) and debt-to-trust beneficiary rights swap in the sum of RMB309.8 million (the "**Trust Beneficiary Right Swap**") (representing 100.0% recovery rate). The related assets after the Equity Swap A and the Trust Beneficiary Right Swap arrangements have been presented in the financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, respectively.

For the year ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2020, the aggregated principal amount of the non-performing assets we had disposed of during the Track Record Period (which included write-off, transfer, debt-to-equity swap, debt-to-trust beneficiary rights swap, etc.) amounted to RMB711.7 million, RMB2,350.1 million, RMB3,361.8 million and RMB557.7 million and the corresponding amounts, shares, trust beneficiary rights etc. we had received through such disposal amounted to RMB582.8 million, RMB1,411.4 million, RMB2,513.6 million and RMB263.6 million, respectively, in the same period and this represented an overall recovery rate of 84.4%, 60.3%, 75.1% and 48.6%, respectively. The decrease in recovery rate during the first three months of 2020 was primarily due to the total amount of NPL we have written off which accounted for 52.7% of the total amount of non-performing assets we had disposed of during the first three months of 2020. For the years ended December 31, 2017, 2018, 2019 and the three months ended March 31, 2020, impairment losses on the non-performing assets we had disposed of were RMB208.3 million, RMB895.2 million, RMB851.1 million and RMB235.4 million, respectively. For the year ended December 31, 2017 and 2019, we recorded a gain of RMB79.4 million and RMB2.9 million, respectively, for the disposal of such non-performing assets and for the year ended December 31, 2018 and for the three months ended March 31, 2020, we recorded a loss of RMB43.5 million and RMB58.7 million, respectively, for disposal of such non-performing assets. All the non-performing assets we have disposed of during the Track Record Period were all NPLs.

During the Track Record Period, we also disposed part of our NPLs by way of transfer to Independent Third Parties such as state-owned asset management companies in the PRC and other assets management companies in the PRC that meet the relevant qualification and requirements stipulated by the MOF and the CBIRC through public tenders or sale (the "**NPL Transferees**"). In addition, we also transferred a certain of our NPLs related to a few of our corporate banking customers in 2019 through debt-to-equity swap and debt-to-trust beneficiary rights swap in 2019 as part of the Restructuring Plan approved by the PRC courts. All the NPLs we have transferred during the Track Record Period were classified as sub-standard. For details of our loan classification criteria, please see "– Asset Quality of Our Loan Portfolio – Loan Classification Criteria". Please also see "Risk Management – Non-performing Assets Management – Transfer to Third Parties" for details of our risk management on non-performing assets and our procedures on how we transferred our non-performing assets. In addition, we also transferred the sum of RMB15.0 million of our loan classified as special mention to an Independent Third Party in 2017.

For the year ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2020, the aggregated principal amount of the NPLs and special mention loan (the "**Transferred Loans**") we have transferred to Independent Third Parties amounted to RMB506.2 million, RMB1,748.5 million, RMB2,219.0 million and RMB128.8 million, respectively, and the consideration we have received for the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2020 amounted to RMB387.2 million, RMB1,068.7 million, RMB1,661.0 million and RMB89.4 million, respectively, representing an overall recovery rate of 76.5%, 61.1%, 74.9% and 69.4%, respectively, in the same period. For the year ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2020, the impairment losses on the Transferred Loans amounted to RMB121.0 million, RMB665.3 million, RMB558.6 million and RMB67.6 million, respectively, and we have made a gains of RMB2.0 million, RMB0.6 million and RMB28.2 million, respectively, on the disposal of Transferred Loan in 2017, 2019 and March 31, 2020 and loss of RMB14.5 million on the disposal of Transferred Loan in 2018. Please also see Note 18 (g) in the Appendix I of this prospectus.

During the Track Record Period, we had disposed of part of our non-performing assets to an asset management company which at the same time was one of our top five corporate borrowers (the "**Borrower TJ**") in 2018. Borrower TJ is one of the subsidiary companies under Group TJ (referred herein as parent company of Borrower TJ) and Group TJ is involved in diversified industries in Tianjin Municipalities. We first started to provide our products and services to a subsidiary company under Group TJ in April 2016. As of the Latest Practicable Date, we had been providing loans services to a total of eight companies under the Group TJ (the "**Eight Catering Companies**"), all of which were involved in catering industry. In addition, we also started to provide loans to Borrower TJ in November 2018 and the purpose of the loan was to acquire non-performing assets from other independent third parties. As of March 31, 2020, total loans due from all the subsidiary companies under Group TJ were RMB259.0 million and total loans due from Borrower TJ were RMB245.2 million. For the year ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2020, the aggregated principal amount of non-performing assets we had transferred to Borrower TJ (the "**TJ Transferred Loans**") amounted to nil, RMB390.0 million, RMB1,472.7 million and nil, respectively. The consideration we have received for the year ended December 31, 2018 and 2019 amounted to RMB304.0 million and RMB1,124.5 million, respectively, and representing an overall recovery rate of 77.9% and 76.4%, respectively, in the same period. For the years ended December 31, 2017, 2018, and 2019 and the three months ended March 31, 2020, the impairment losses of the TJ Transferred Loans were nil, RMB80.0 million, RMB342.9 million and nil, respectively, and we recorded a loss of RMB5.9 million and RMB5.3 million on the disposal of TJ Transferred Loans in 2018 and 2019, respectively. Our Directors confirmed that all the terms in our transactions with Borrower TJ during the Track Record Period were all conducted at arm's length negotiation and the terms were comparable to those offered by us to other independent third parties or by other financial institution in the market.

In addition, Group F borrower is one of the NPL Transferees and at the same time, one of our top ten largest group borrowers as of March 31, 2020. As of the Latest Practicable Date, Group F borrower held 0.96% of our Shares. For the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2020, the aggregated principal amount of non-performing assets we had transferred to Group F (the "**F Transferred Loans**") amounted to RMB30.9 million, nil, nil and nil, respectively. The consideration we had received for the year ended December 31, 2017 amounted to RMB30.9 million, representing an overall 100.0% recovery rate. Impairment losses on the F Transferred Loans for the year ended December 31, 2017 amounted to RMB2.6 million and we recorded a gain of RMB2.6 million for the year ended December 31, 2017 in relation to the disposal of the non-performing assets to Group F in 2017. During the Track Record Period, we provided loans and bank acceptance bills services to Group F borrower and our Directors confirmed that our transactions with Group F borrower during the Track Record Period were all conducted at arm's length negotiation and the terms were comparable to those offered by us to other independent third parties.

To the best knowledge of our Directors, during the Track Record Period, saved as disclosed in this prospectus and apart from the general banking services such as bank loans, bank acceptance bills, investment in debt securities and SPV Investment, credit and debit cards, wealth management products, savings (collectively known as "**General Banking Services**") provided to or invested in the NPL Transferees, their respective shareholders, directors, senior management or any of their respective associate, none of the NPL Transferees, their respective shareholders, directors, senior management or any of their respective associates has any other past or present shareholding business, family, trust (financing or otherwise) or employment relationships with our Bank, our subsidiary, Directors, Shareholders or our senior managements.

Migration Ratios of Our Loans

The following table sets forth the migration ratios of our loan portfolio calculated in accordance with the applicable CBRC requirements for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,
	2017	2018	2019	2020
Normal and special mention loans(1)	3.21%	3.88%	3.52%	0.87%
Normal loans(2)	3.38%	7.09%	6.53%	1.57%
Special mention loans(3)	63.52%	12.82%	22.08%	10.38%
Substandard loans(4)	—	—	6.55%	0.01%
Doubtful loans(5)	—	—	—	—

Notes:

(1) Represent migration ratios of loans classified as normal or special mention which were subsequently 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 of the year and downgraded to non-performing loans at the end of the year, and (ii) loans classified as special mention at the beginning date of the year and downgraded to NPLs at the end of the year, and the denominator of which equals the sum of (i) the difference between the balance of normal loans at the beginning of the year and the decrease, in the year, in the loans which were classified as normal at the beginning of the year, and (ii) the difference between the balance of special mention loans at the beginning of the year and the decrease in such loans in the year.

(2) Represent migration ratio of loans classified as normal which were subsequently downgraded to other classifications. The normal loan migration ratio represents a fraction, the numerator of which equals loans classified as normal at the beginning of the year and downgraded to lower classifications at the end of the year, and the denominator of which equals the difference between the balance of normal loans at the beginning of the year and the decrease in such loans in the year.

(3) Represent migration ratio of loans classified as special mention which were subsequently downgraded to NPLs. The special mention loan migration ratio represents a fraction, the numerator of which equals the loans which were classified as special mention at the beginning of the year and downgraded to NPLs at the end of the year, and the denominator of which equals the difference between the balance of special mention loans at the beginning of the year and the decrease in such loans in the year.

(4) Represent migration ratio of loans classified as substandard which were subsequently downgraded to doubtful or loss. The substandard loan migration ratio represents a fraction, the numerator of which equals the loans classified as substandard at the beginning of the year and downgraded to doubtful or loss at the end of the year, and the denominator of which equals the difference between the balance of substandard loans at the beginning of the year and the decrease in such loans in the year.

(5) Represent migration ratio of loans classified as doubtful which were downgraded to loss. The doubtful loan migration ratio represents a fraction, the numerator of which equals the loans classified as doubtful at the beginning of the year and downgraded to loss at the end of the year, and the denominator of which equals the difference between the balance of doubtful loans at the beginning of the year and the decrease in such loans in the year.

The migration ratio for our loans classified as substandard increased from zero in 2018 to 6.55% as of December 31, 2019, mainly due to the weakened repayment ability of certain customers in manufacturing industries caused by the slowdown in PRC's economic growth and the industrial structure adjustment. Please also see "— Asset Quality of Our Loan Portfolio — Distribution of Loans by Loan Classification". The migration ratio for our loans classified as substandard decreased from 6.55% as of December 31, 2019 to 0.01% as of March 31, 2020, primarily because for the three months ended March 31, 2020, substantially most of our substandard loans as of December 31, 2019 has not downgraded to doubtful for the three month ended March 31, 2020.

Distribution of NPLs by Product Type

The following table sets forth the distribution of our NPLs by product type as of the dates indicated:

	As of December 31,									As of March 31,		
	2017			2018			2019			2020		
	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	600.2	61.4%	1.35%	1,177.1	85.9%	2.71%	1,300.3	78.0%	2.80%	1,667.2	89.1%	3.33%
Fixed asset loans	45.9	4.7%	0.82%	36.3	2.6%	0.38%	—	—	—	—	—	—
Other loans	249.1	25.5%	25.89%	85.9	6.3%	16.98%	274.6	16.5%	15.27%	95.5	5.1%	4.80%
Subtotal	**895.2**	**91.6%**	**1.75%**	**1,299.3**	**94.8%**	**2.43%**	**1,574.9**	**94.5%**	**2.48%**	**1,762.7**	**94.2%**	**2.49%**
Personal loans												
Residential mortgage loans	5.1	0.5%	0.08%	2.8	0.2%	0.04%	10.4	0.6%	0.10%	9.3	0.5%	0.09%
Personal consumption loans	3.3	0.3%	0.40%	4.4	0.3%	0.55%	4.1	0.2%	0.21%	5.2	0.3%	0.20%
Personal business loans	72.8	7.4%	1.61%	62.8	4.6%	0.97%	78.3	4.7%	0.79%	92.3	4.9%	0.89%
Credit cards balance	2.0	0.2%	8.40%	1.0	0.1%	1.95%	0.6	0.0%	0.13%	1.1	0.1%	0.21%
Subtotal	**83.2**	**8.4%**	**0.73%**	**71.0**	**5.2%**	**0.47%**	**93.4**	**5.5%**	**0.42%**	**107.9**	**5.8%**	**0.45%**
Discounted bills												
Bank acceptance bills	—	—	—	—	—	—	—	—	—	—	—	—
Commercial acceptance bills	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total NPLs	**978.4**	**100.0%**	**1.47%**	**1,370.3**	**100.0%**	**1.82%**	**1,668.3**	**100.0%**	**1.80%**	**1,870.6**	**100.0%**	**1.80%**

Note:

(1) Calculated by dividing NPLs in each product type by gross loans to customers in that product type.

Non-performing Corporate Loans

Our non-performing corporate loans increased by 45.1% from RMB895.2 million (representing a NPL ratio of 1.75%) as of December 31, 2017 to RMB1,299.3 million (representing a NPL ratio of 2.43%) as of December 31, 2018, and further increased by 21.2% to RMB1,574.9 million (representing a NPL ratio of 2.48%) as of December 31, 2019. Our non-performing corporate loans amounted to RMB1,762.7 million (representing a NPL ratio of 2.49%) as of March 31, 2020, representing a 11.9% increase as compared to our non-performing corporate loans as of December 31, 2019. The continued increase in our non-performing corporate loans was primarily due to (i) the deteriorated financial positions and weakened repayment ability of some of our borrowers brought by the economic slowdown and industrial structure adjustment in the PRC; and (ii) our adoption of cautious risk control measures in accordance with regulatory development and risk management policies, in particular, we started to categorize loans overdue more than 90 days as NPLs in 2018 in order to comply with the new standard issued by the CBIRC that requires banks to classify all loans overdue more than 90 days as NPLs by the end of 2018. For details of the industry average, please see "Industry Overview — PRC Banking Industry". Please also see "— Asset Quality of Our Loan Portfolio — Distribution of Loans by Loan Classification".

Non-performing Personal Loans

Our non-performing personal loans decreased by 14.7% from RMB83.2 million (representing a NPL ratio of 0.73%) as of December 31, 2017 to RMB71.0 million (representing a NPL ratio of 0.47%) as of December 31, 2018, mainly because we strengthened credit risk management to improve our asset quality, and collected and wrote off NPLs in accordance with relevant regulatory policies. Our non-performing personal loans increased from RMB71.0 million (representing a NPL ratio of 0.47%) as of December 31, 2018 to RMB93.4 million (representing a NPL ratio of 0.42%) as of 31 December, 2019 and further increased to RMB107.9 million (representing a NPL ratio of 0.45%) as of March 31, 2020, mainly due to an increase in our non-performing personal business loans and residential mortgage loans caused by the deteriorated financial positions and weakened repayment ability of some self-employed traders and individuals with relatively low risk tolerance level during the economic slowdown in the PRC.

Distribution of Non-Performing Corporate Loans by Industry

The following table sets forth the distribution of our NPLs to corporate banking customers by industry as of the dates indicated:

	As of December 31,									As of March 31,		
	2017			2018			2019			2020		
	Amount	% of total	NPL ratio[1]	Amount	% of total	NPL ratio[1]	Amount	% of total	NPL ratio[1]	Amount	% of total	NPL ratio[1]
	(in millions of RMB, except percentages)											
Manufacturing	438.5	49.0%	2.05%	961.1	73.9%	4.67%	785.2	49.8%	4.47%	906.2	51.4%	5.18%
Wholesale and retail	415.4	46.4%	5.25%	148.1	11.4%	1.99%	640.2	40.7%	8.46%	696.3	39.5%	9.37%
Water conservancy, environment and public facilities management	—	—	—	22.0	1.7%	0.43%	104.6	6.6%	1.85%	130.8	7.4%	1.74%
Construction	22.8	2.5%	0.58%	41.4	3.2%	0.94%	26.2	1.7%	0.41%	—	—	—
Leasing and business services	3.5	0.4%	0.09%	—	—	—	—	—	—	—	—	—
Agriculture, forestry, animal husbandry and fishery	10.0	1.1%	0.81%	6.7	0.5%	0.46%	4.5	0.3%	0.24%	22.2	1.3%	0.91%
Transportation, warehousing and postal services	—	—	—	15.0	1.2%	1.06%	7.0	0.4%	0.39%	—	—	—
Others[2]	5.0	0.6%	0.29%	105.0	8.1%	6.71%	7.2	0.5%	0.16%	7.2	0.4%	0.15%
Total non-performing corporate loans	**895.2**	**100.0%**	**1.75%**	**1,299.3**	**100.0%**	**2.43%**	**1,574.9**	**100.0%**	**2.48%**	**1,762.7**	**100.0%**	**2.49%**

Notes:

(1) Calculated by dividing NPLs in each industry by gross loans to corporate customers in that industry.

(2) Comprised primarily of (i) information transmission, software and information technology services, (ii) education, (iii) resident services, maintenance and other services, and (iv) accommodation and catering.

Our non-performing corporate loans consisted primarily of NPLs to borrowers in the manufacturing industry, the wholesale and retail industry.

Our NPL ratio of corporate loans to manufacturing industries increased from 2.05% as of December 31, 2017 to 4.67% as of December 31, 2018, mainly reflecting that our loans to certain enterprises in manufacturing industries were in default because (i) of the adverse impacts of PRC's economic slowdown and industrial structure adjustment; and (ii) the government policy of phasing out outdated production capacity (especially traditional manufacturing industries). The NPL ratio of our corporate loans to manufacturing industries fell from 4.67% as of December 31, 2018 to 4.47% as of December 31, 2019, mainly due to (i) our adjustment to the loan disbursement policy based on the elevated credit review standards in respect of industry risk evaluation; and (ii) our intensified efforts to collect the NPLs of manufacturing industries. Please also see "— Asset Quality of Our Loan Portfolio — Distribution of Loans by Loan Classification". Our NPL ratio of corporate loans to manufacturing industries increased from 4.47% as of December 31, 2019 to 5.18% as of March 31, 2020, primarily due to deteriorated financial positions and weakened repayment ability of some of our corporate borrowers in manufacturing industry during the economic slowdown in the PRC as a result of the COVID-19 outbreak and the quarantine measures adopted by the PRC Government during the first quarter of 2020. Such quarantine measures had suspended a good proportion of economics activities in the PRC which inevitably caused enterprises in manufacturing industry for instance to delay production and resumption of works.

As of December 31, 2017 and 2018, the NPL ratio of our corporate loans to wholesale and retail industries decreased from 5.25% as of December 31, 2017 to 1.99% as of December 31, 2018, mainly due to (i) our reinforcement of and adjustment to the loan disbursement policy based on the elevated credit review standards in respect of industry risk evaluation; and (ii) our intensified efforts to collect the NPLs in the wholesale and retail industries. The NPL ratio of our loans to the wholesale and retail industries rose from 1.99% as of December 31, 2018 to 8.46% as of December 31, 2019, mainly due to an increase in our non-performing loans to wholesale and retail industries, which resulted from the deteriorated financial positions and weakened repayment ability of some wholesale and retail companies with relatively low risk tolerance level during the economic slowdown in the PRC. Our NPL ratio of corporate loans to wholesale and retail industries increased from 8.46% as of December 31, 2019 to 9.37% as of March 31, 2020, primarily due to deteriorated financial positions and weakened repayment ability of some of our corporate borrowers in the wholesale and retail industries during the economic slowdown in the PRC as a result of the COVID-19 outbreak and the quarantine measures adopted by the PRC Government during the first quarter of 2020. The COVID-19 outbreak and quarantine measures adopted by the PRC Government had suspended a good proportion of economics activities in the PRC which inevitably caused our corporate borrowers operated in the wholesale and retail industries to have their shops and business premises closed, and thus resulted in cash flow and liquidity issues in their business operation.

Distribution of NPLs by Geographical Region

The following table sets forth the distribution of our NPLs as of the dates indicated. For the distribution of loans by geographical region, please see the subsection headed "— Assets — Loans and Advances to Customers — Distribution of Loans by Geographical Region".

	As of December 31,									As of March 31,		
	2017			2018			2019			2020		
	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)											
Weihai City	175.5	17.9%	0.77%	116.5	8.5%	0.45%	100.6	6.0%	0.32%	142.7	7.6%	0.42%
Jinan City	148.6	15.2%	1.73%	266.2	19.4%	2.80%	466.5	28.0%	3.95%[2]	454.5	24.3%	3.66%
Qingdao City	321.5	32.9%	5.99%	243.6	17.8%	5.01%	171.5	10.3%	3.21%	206.2	11.0%	3.27%
Jining City	30.9	3.2%	0.77%	68.8	5.0%	1.76%	61.6	3.7%	1.59%	172.7	9.2%	3.99%
Dezhou City	15.2	1.6%	0.39%	92.8	6.8%	2.05%	174.4	10.4%	3.43%	150.1	8.0%	2.54%
Yantai City	4.5	0.4%	0.14%	25.5	1.9%	0.66%	109.3	6.6%	2.17%	134.3	7.2%	2.72%
Linyi City	–	–	–	35.0	2.6%	0.72%	7.2	0.4%	0.09%	23.2	1.2%	0.27%
Dongying City	80.0	8.2%	2.54%	202.0	14.7%	6.11%	152.3	9.1%	4.86%	171.3	9.2%	5.27%
Weifang City	15.0	1.5%	0.73%	26.1	1.9%	1.32%	12.6	0.8%	0.32%	10.3	0.6%	0.11%
Zibo City	–	–	–	24.0	1.7%	1.36%	1.6	0.1%	0.07%	1.7	0.1%	0.07%
Tianjin Municipality	187.2	19.1%	2.63%	269.8	19.7%	3.51%	410.7	24.6%	6.28%[3]	403.6	21.6%	7.51%[3]
Total NPLs	**978.4**	**100.0%**	**1.47%**	**1,370.3**	**100.0%**	**1.82%**	**1,668.3**	**100.0%**	**1.80%**	**1,870.6**	**100.00%**	**1.80%**

Notes:

(1) Calculated by dividing NPLs in each region by gross loans to customers in that region.

(2) Our NPL ratio increased from 2.80% as of December 31, 2018 to 3.95% as of December 31, 2019, primarily due to (i) macroeconomic slowdown and the impact brought by the industrial structure adjustment. In recent years, the PRC Government has issued a series of industrial structure adjustment policies aimed at creating space for development of advanced production capacity industries. Therefore, Shandong Province has accelerated the conversion of old growth drivers into new growth drivers, promoted the transformation and upgrading of traditional industries which affected our borrowers in Jinan City. At the same time, under the macroeconomic slowdown, our borrowers in Jinan City have changed their operating environment, which led to intensified market competition and further resulted in deterioration of their business operation and repayment ability; and (ii) our branches in Jinan City are few of the earliest established branches outside our headquarters. As of December 31, 2019, Jinan City ranked second in terms of our total loans and advances to customers, just behind Weihai City. Jinan City, being an important industrial base (such as steel, coal, refining, machinery, and textiles, etc.,) in the PRC, our loans and advances extended to such industries constituted an important part of our loans and advances portfolio in the Jinan city. As a result, under the impact brought by the industrial structure adjustment, our scale of NPLs has increased.

(3) Our NPL ratio increased from 3.51% as of December 31, 2018 to 6.28% as of December 31, 2019 and further increased to 7.51% as of March 31, 2020, primarily due to (i) the impact brought by the macroeconomic environment and market conditions in the Tianjin Municipality; and (ii) the slowdown of the PRC's economic growth as well as the impact brought by the industrial structure adjustment in Tianjin Municipality, which caused the operating environments and financial conditions of some of our corporate borrowers in Tianjin Municipality to deteriorate.

Distribution of NPLs by Collateral

The following table sets forth the distribution of our NPLs by types of collateral as of the dates indicated:

	As of December 31,									As of March 31,		
	2017			2018			2019			2020		
	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)											
Pledged loans	9.0	0.9%	0.25%	94.0	6.9%	2.76%	—	—	—	2.2	0.1%	0.03%
Collateralized loans	99.8	10.2%	0.47%	205.7	15.0%	0.78%	210.1	12.6%	0.59%	319.3	17.1%	0.82%
Guaranteed loans	867.4	88.7%	2.41%	1,068.9	78.0%	2.90%	1,456.4	87.3%	3.74%	1,542.7	82.5%	3.75%
Unsecured loans	2.2	0.2%	0.12%	1.7	0.1%	0.08%	1.8	0.1%	0.03%	6.4	0.3%	0.08%
Total NPLs	**978.4**	**100.0%**	**1.47%**	**1,370.3**	**100.0%**	**1.82%**	**1,668.3**	**100.0%**	**1.80%**	**1,870.6**	**100.0%**	**1.80%**

Note:

(1) Calculated by dividing NPLs secured by each type of collateral by gross loans secured by that type of collateral.

The NPL ratio of our pledged loans increased from 0.25% as of December 31, 2017 to 2.76% as of December 31, 2018, mainly reflecting the adverse impacts of the economic slowdown and industrial structure adjustment in the PRC on individual customers' financial positions. As of December 31, 2019, the NPL ratio of our pledged loans decreased to zero, mainly because we toughened risk management measures, imposed strict conditions on borrowers and continued to collect the non-performing loans. As of March 31, 2020, our NPL ratio of our pledged loans was 0.03% and the increase was primarily due to the deteriorated financial positions and weakened repayment ability of one of our borrowers brought by the economic slowdown in the PRC during the first quarter of 2020.

The NPL ratio of our collateralized loans increased from 0.47% as of December 31, 2017 to 0.78% as of December 31, 2018, mainly due to an increase in our non-performing collateralized loans, which resulted from the deteriorated financial positions and weakened repayment ability of some small and medium enterprises with relatively low risk tolerance level during the economic slowdown in the PRC. As of December 31, 2019, the NPL ratio of our collateralized loans decreased to 0.59%, mainly because we toughened risk management measures, imposed stricter conditions on borrowers and continued our effort to collect the non-performing loans. As of March 31, 2020, our NPL ratio of collateralized loans was 0.82% and the increase was primarily due to the deteriorated financial positions and weakened repayment ability of some of our borrowers brought by the economic slowdown in the PRC during first quarter of the 2020.

The NPL ratio of our guaranteed loans increased from 2.41% as of December 31, 2017 to 2.90% as of December 31, 2018, and further increased to 3.74% as of December 31, 2019. The NPL ratio of our guaranteed loans was 3.75% as of March 31, 2020. The NPL ratio of our guaranteed loans continuously rose, mainly due to an increase in our non-performing guaranteed loans, which resulted from the deteriorated financial positions and weakened repayment ability of some small and medium enterprise borrowers brought by the economic slowdown in the PRC during the first quarter of 2020.

The NPL ratio of our unsecured loans decreased from 0.12% as of December 31, 2017 to 0.08% as of December 31, 2018, and further fell to 0.03% as of December 31, 2019. The NPL ratio of our unsecured loans was 0.08% as of March 31, 2020. The NPL ratio of our unsecured loans remained relatively stable and at a lower level, mainly due to our adoption of prudent risk control measures and the better asset quality of our credit-based loans.

Ten Largest Non-performing Borrowers

The following table sets forth our borrowers with the ten largest NPL balances outstanding as of the date indicated:

	As of March 31, 2020				
	Industry	**Outstanding principal amount**	**Classification**	**% of total NPLs**	**% of net capital base[(1)]**
	(in millions of RMB, except percentages)				
NPL Borrower A	Wholesale and retail	207.1	Substandard	11.1%	0.84%
NPL Borrower K	Wholesale and retail	197.9	Substandard	10.6%	0.81%
NPL Borrower C	Manufacturing	128.2	Substandard	6.9%	0.52%
NPL Borrower L	Manufacturing	99.8	Substandard	5.3%	0.41%
NPL Borrower D	Water conservancy, environment and public facilities management	82.6	Substandard	4.4%	0.34%
NPL Borrower E	Wholesale and retail	63.1	Substandard	3.4%	0.26%
NPL Borrower M	Manufacturing	53.9	Substandard	2.9%	0.22%
NPL Borrower F	Water conservancy, environment and public facilities management	48.2	Substandard	2.6%	0.20%
NPL Borrower G	Wholesale and retail	48.0	Substandard	2.6%	0.20%
NPL Borrower N	Manufacturing	46.1	Substandard and doubtful[(2)]	2.5%	0.19%
Total		**974.9**		**52.3%**	**3.99%**

Note:

(1) Represents loan balance as a percentage of our net capital base (also referred to in this prospectus as "regulatory capital"), calculated in accordance with the requirements of the Capital Administration Measures and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our net capital base as of March 31, 2020, please see "Financial Information — Capital Resources — Capital Adequacy".

(2) As of March 31, 2020, part of the NPL Borrower N's NPL (a loan in the sum of RMB2.1 million) was classified as doubtful due to the extension of overdue time and because it was guaranteed. The remaining NPL Borrower N's NPL (i.e. two loans in the sum of RMB44.0 million) were secured by collaterals and classified as substandard. As of the Latest Practicable Date, NPL Borrower N has repaid such doubtful loan to us and all the remaining loans remained as substandard.

Loan Aging Schedule

The following table sets forth our loan aging schedule as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Loan Aging Schedule								
Current loans	64,624.5	97.2%	71,973.4	95.8%	88,350.8	95.6%	99,281.0	95.8%
Loans past due for								
— Up to 3 months[1]	922.4	1.3%	1,944.8	2.6%	2,628.5	2.7%	2,520.4	2.4%
— Over 3 months up to 6 months[1]	128.7	0.2%	381.2	0.5%	463.9	0.5%	555.1	0.5%
— Over 6 months up to 1 year[1]	303.5	0.5%	611.6	0.8%	425.2	0.5%	632.6	0.6%
— Over 1 year up to 3 years[1]	537.2	0.8%	257.8	0.3%	526.5	0.6%	618.3	0.6%
— Over 3 years[1]	2.3	0.0%	26.9	0.0%	56.7	0.1%	58.6	0.1%
Subtotal	1,894.1	2.8%	3,222.3	4.2%	4,100.8	4.4%	4,385.0	4.2%
Total loans and advances to customers	**66,518.6**	**100.0%**	**75,195.7**	**100.0%**	**92,451.6**	**100.0%**	**103,666.0**	**100.0%**

Note:

(1) Represented the principal amount of the loans on which principal or interest overdue as of the dates indicated.

Allowance for Impairment Losses on Loans to Customers

We assess our loans for impairment and determine a level of allowance for impairment losses in accordance with the requirements of IAS 39 before January 1, 2018 and IFRS 9 starting from January 1, 2018. Please see "Financial Information — Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies" and Note 2(1)(a) to our historical financial information included in the Accountants' Report in Appendix I to this prospectus.

Before January 1, 2018, under the requirements of IAS 39, we used two methodologies for assessing loan impairment losses, namely individual assessment and collective assessment. Loans which were considered individually significant were assessed individually for impairment. Loans which were assessed collectively for impairment include individually assessed loans with no objective evidence of impairment on an individual basis, and homogeneous groups of loans which were not considered individually significant and not assessed individually. Loans that were individually assessed for impairment and for which an impairment loss was or continued to be recognized were not included in a collective assessment for impairment.

Starting from January 1, 2018, under the requirements of IFRS 9, we categorize and manage our financial assets' credit risk into the following stages: (i) Stage 1 refers to financial assets that have not experienced a significant increase in credit risk since origination and impairment are recognized on the basis of 12 months expected credit losses; (ii) Stage 2 refers to financial assets that have experienced a significant increase in credit risk since origination and impairment are recognized on the basis of lifetime expected credit losses; (iii) Stage 3 refers to financial assets that are in default and considered credit-impaired. We have developed a new expected credit loss impairment model in accordance with IFRS 9 to measure the expected credit losses, taking into account various factors such as macroscopic index, macroeconomic indicators and macro-financial scenario analysis.

An impairment loss is recognized through profits or losses and is measured as the difference between the contractual cash flows that are due to the Group under the contract and the cash flows that the entity expects to receive. The calculation of the present value of the estimated future cash flows of a collateralized/pledged financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral or pledges. For loans classified as "substandard", "doubtful" and "loss", we generally do not make full provision for impairment allowance, as we measure impairment allowance 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 recoverable cash flows of the loans, including the recoverable value of the collateral or pledges. We believe the measurement of our impairment allowance complies with the *Guidelines of Risk-based Classification of Loans* (《貸款風險分類指引》) and the requirements under IAS 39 and IFRS 9.

For further discussion on impairment losses on our loans and advances to customers, please see "Financial Information — Results of Operations for the Years Ended December 31, 2017, 2018 and 2019 — Impairment Losses on Assets", "Financial Information — Results of Operations for the Three Months Ended March 31, 2019 and 2020 — Impairment Losses on Assets" and Note 18(e) to our historical financial information included in the Accountants' Report in Appendix I to this prospectus.

Distribution of Allowance for Impairment Losses by Loan Classification

The following table sets forth the distribution of our allowance for impairment losses by loan classification category as of the dates indicated:

	As of December 31,			As of January 1,			As of December 31,						As of March 31,		
	2017			2018 (unaudited)			2018			2019			2020		
	Amount[2]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]
	(in millions of RMB, except percentages)														
Normal	1,189.7	69.1%	1.90%	1,149.2	58.8%	1.83%	828.5	37.0%	1.20%	1,125.1	40.8%	1.32%	1,128.9	37.6%	1.18%
Special mention	132.4	7.7%	4.68%	351.1	18.0%	12.42%	627.6	28.1%	13.75%	731.8	26.5%	13.69%	937.7	31.2%	15.78%
Substandard	393.5	22.9%	40.52%	449.9	23.0%	46.33%	778.5	34.8%	57.04%	879.1	31.8%	53.75%	921.3	30.7%	50.11%
Doubtful	5.6	0.3%	76.71%	3.7	0.2%	50.69%	2.6	0.1%	48.15%	24.9	0.9%	76.15%	16.2	0.5%	50.78%
Loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total allowance	**1,721.2**	**100.0%**	**2.59%**	**1,953.9**	**100.0%**	**2.94%**	**2,237.2**	**100.0%**	**2.98%**	**2,760.9**	**100.0%**	**2.99%**	**3,004.1**	**100.0%**	**2.90%**

Notes:

(1) Calculated by dividing impairment allowance on loans in each category by gross loans in that category.

(2) Measured and recognized in accordance with the requirements of IAS 39.

(3) Measured and recognized in accordance with the requirements of IFRS 9.

The following table sets forth the distribution of our allowance for impairment losses by business line and by loan classification category as of the dates indicated:

	As of December 31,			As of January 1,			As of December 31,						As of March 31,		
	2017			2018 (unaudited)			2018			2019			2020		
	Amount[2]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]
	(in millions of RMB, except percentages)														
Corporate loans															
Normal	911.3	53.0%	1.92%	1,018.5	52.1%	2.14%	650.7	29.1%	1.37%	819.6	29.6%	1.45%	735.2	24.5%	1.16%
Special mention	131.6	7.6%	4.69%	348.4	17.8%	12.41%	625.7	28.0%	13.77%	728.8	26.4%	13.69%	932.7	31.0%	15.78%
Substandard	368.1	21.4%	41.12%	411.7	21.1%	45.99%	742.3	33.2%	57.14%	828.0	30.0%	53.58%	867.8	28.9%	50.07%
Doubtful	—	—	—	—	—	—	—	—	—	22.5	0.8%	76.01%	14.8	0.5%	50.00%
Loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	**1,411.0**	**82.0%**	**2.76%**	**1,778.6**	**91.0%**	**3.47%**	**2,018.7**	**90.3%**	**3.78%**	**2,398.9**	**86.8%**	**3.78%**	**2,550.5**	**84.9%**	**3.60%**
Personal loans															
Normal	207.8	12.1%	1.84%	126.1	6.5%	1.12%	170.1	7.6%	1.13%	297.9	10.8%	1.34%	383.5	12.8%	1.61%
Special mention	0.8	0.0%	4.37%	2.7	0.1%	14.75%	1.9	0.1%	9.95%	3.0	0.1%	12.00%	5.0	0.2%	15.92%
Substandard	25.4	1.5%	33.47%	38.2	2.0%	50.33%	36.2	1.6%	55.18%	51.1	1.9%	56.59%	53.5	1.8%	50.66%
Doubtful	5.6	0.3%	76.71%	3.7	0.2%	50.68%	2.6	0.1%	48.15%	2.4	0.1%	77.42%	1.4	0.0%	60.87%
Loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	**239.6**	**13.9%**	**2.10%**	**170.7**	**8.8%**	**1.50%**	**210.8**	**9.4%**	**1.39%**	**354.4**	**12.9%**	**1.59%**	**443.4**	**14.8%**	**1.85%**
Discounted bills															
Normal	70.6	4.1%	1.80%	4.6	0.2%	0.12%	7.7	0.3%	0.12%	7.6	0.3%	0.11%	10.2	0.3%	0.11%
Special mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	**70.6**	**4.1%**	**1.80%**	**4.6**	**0.2%**	**0.12%**	**7.7**	**0.3%**	**0.12%**	**7.6**	**0.3%**	**0.11%**	**10.2**	**0.3%**	**0.11%**
Total allowance	**1,721.2**	**100.0%**	**2.59%**	**1,953.9**	**100.0%**	**2.94%**	**2,237.2**	**100.0%**	**2.98%**	**2,760.9**	**100.0%**	**2.99%**	**3,004.1**	**100.0%**	**2.90%**

Notes:

(1) Calculated by dividing allowance for impairment losses on loans in each category by gross loans in that category.

(2) Measured and recognized in accordance with the requirements of IAS 39.

(3) Measured and recognized in accordance with the requirements of IFRS 9.

Changes to Allowance for Impairment Losses

We report net allowance for impairment losses on loans to customers in our statement of profit and loss and other comprehensive income. Please see "Financial Information — Results of Operations for the Years Ended December 31, 2017, 2018 and 2019 — Impairment Losses on Assets", "Financial Information — Results of Operations for the Three Months Ended March 31, 2019 and 2020 — Impairment Losses on Assets".

The following table sets forth the changes to the allowance for impairment losses on loans to customers for the periods indicated:

	Amount
	(in millions of RMB)
As of January 1, 2017[(1)]	1,500.7
Charge for the year	331.6
Recoveries	17.8
Write-off.	(128.9)
As of December 31, 2017[(1)]	**1,721.2**
As of January 1, 2018[(2)]	1,953.9
Charge for the year	1,226.1
Recoveries	5.3
Transfer out	(9.4)
Write-off	(938.7)
As of December 31, 2018[(3)]	**2,237.2**
Charge for the year	1,361.0
Recoveries	10.9
Write-off.	(848.2)
As of December 31, 2019[(4)]	**2,760.9**
Charge for the year	530.1
Recoveries	7.3
Write-off	(294.2)
As of March 31, 2020[(5)]	**3,004.1**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9, comprised of allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB1,949.4 million.

(3) Prepared in accordance with IFRS 9, comprised of allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB2,229.4 million.

(4) Prepared in accordance with IFRS 9, comprised of allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB2,753.4 million.

(5) Prepared in accordance with IFRS 9, comprised of allowance for impairment losses on the loans and advances to customers measured at amortized costs which amounted to RMB2,993.9 million.

Our allowance for impairment losses on loans to customers amounted to RMB1,721.2 million as of December 31, 2017 according to IAS 39. We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. Our allowance for impairment losses on loans to customers as of January 1, 2018 amounted to RMB1,953.9 million in accordance with the expected credit loss model under IFRS 9, as such expected credit loss model, compared to the incurred loss model under IAS 39, uses more forward-looking information rather than considering the existence of objective evidence of impairment as a prerequisite for recognition of credit losses. Our allowance for impairment losses on loans to customers increased by 14.5% from RMB1,953.9 million as of January 1, 2018 to RMB2,237.2 million as of December 31, 2018, and further increased to RMB2,760.9 million as of December 31, 2019. As of March 31, 2020, our allowance for impairment losses on loans to customers amounted to RMB3,004.1 million. The increase in our allowance for impairment losses on loans to customers was generally in line with the growth of our loans to customers, setting aside the effect of the adoption of IFRS 9.

Distribution of Allowance for Impairment Losses by Product Type

The following table sets forth the distribution of our allowance for impairment losses on loans to customers by product type as of the dates indicated:

	As of December 31,			As of January 1,			As of December 31,						As of March 31,		
	2017			2018 (unaudited)			2018			2019			2020		
	Amount(2)	% of total	Allowance to gross loan ratio(1)	Amount(3)	% of total	Allowance to gross loan ratio(1)	Amount(3)	% of total	Allowance to gross loan ratio(1)	Amount(3)	% of total	Allowance to gross loan ratio(1)	Amount(3)	% of total	Allowance to gross loan ratio(1)
	(in millions of RMB, except percentages)														
Corporate loans															
Working capital loans	1,162.8	67.6%	2.61%	1,506.7	77.0%	3.38%	1,834.0	82.0%	4.22%	2,002.6	72.4%	4.31%	2,272.3	75.6%	4.54%
Fixed asset loans	116.7	6.8%	2.08%	132.1	6.8%	2.35%	129.6	5.8%	1.37%	197.8	7.2%	1.30%	208.4	7.0%	1.11%
Others	131.5	7.6%	13.67%	139.8	7.2%	14.53%	55.1	2.5%	10.89%	198.5	7.2%	11.04%	69.8	2.3%	3.51%
Subtotal	1,411.0	82.0%	2.76%	1,778.6	91.0%	3.47%	2,018.7	90.3%	3.78%	2,398.9	86.8%	3.78%	2,550.5	84.9%	3.60%
Personal loans															
Residential mortgage loans	113.7	6.6%	1.89%	67.3	3.4%	1.12%	84.6	3.8%	1.08%	113.6	4.1%	1.14%	111.8	3.8%	1.06%
Personal consumption loans	16.8	1.0%	2.03%	11.3	0.6%	1.36%	11.6	0.5%	1.46%	57.9	2.1%	2.92%	34.5	1.1%	1.35%
Personal business loans	106.7	6.2%	2.36%	91.1	4.7%	2.02%	113.5	5.1%	1.75%	176.5	6.5%	1.79%	279.8	9.3%	2.70%
Credit cards balance	2.4	0.1%	10.08%	1.0	0.1%	4.20%	1.1	0.0%	2.15%	6.4	0.2%	1.39%	17.3	0.6%	3.36%
Subtotal	239.6	13.9%	2.10%	170.7	8.8%	1.50%	210.8	9.4%	1.39%	354.4	12.9%	1.59%	443.4	14.8%	1.85%
Discounted bills															
Bank acceptance bills	62.7	3.6%	1.80%	4.1	0.2%	0.12%	7.4	0.3%	0.12%	6.6	0.3%	0.11%	9.2	0.3%	0.11%
Commercial acceptance bills	7.9	0.5%	1.79%	0.5	0.0%	0.12%	0.3	0.0%	0.12%	1.0	0.0%	0.11%	1.0	0.0%	0.11%
Subtotal	70.6	4.1%	1.80%	4.6	0.2%	0.12%	7.7	0.3%	0.12%	7.6	0.3%	0.11%	10.2	0.3%	0.11%
Total allowance for loans	**1,721.2**	**100.0%**	**2.59%**	**1,953.9**	**100.0%**	**2.94%**	**2,237.2**	**100.0%**	**2.98%**	**2,760.9**	**100.0%**	**2.99%**	**3,004.1**	**100.0%**	**2.90%**

Notes:

(1) Calculated by dividing allowance for impairment losses on loans in each category by gross loans in that category.

(2) Measured and recognized in accordance with the requirements of IAS 39.

(3) Measured and recognized in accordance with the requirements of IFRS 9.

Distribution of Allowance for Impairment Losses by Geographic Region

The following table sets forth the distribution of our allowance for impairment losses on loans to customers as of the dates indicated:

	As of December 31,			As of January 1,			As of December 31,						As of March 31,		
	2017			2018 (unaudited)			2018			2019			2020		
	Amount[2]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]
	(in millions of RMB, except percentages)														
Weihai City	511.8	29.7%	2.26%	486.9	24.9%	2.15%	319.5	14.3%	1.23%	425.0	15.4%	1.35%	414.6	13.8%	1.22%
Jinan City	227.9	13.2%	2.65%	344.1	17.6%	4.00%	391.2	17.5%	4.12%	537.2	19.5%	4.55%	521.0	17.3%	4.19%
Qingdao City	248.7	14.5%	4.63%	288.4	14.8%	5.37%	226.5	10.1%	4.66%	145.7	5.3%	2.73%	252.1	8.4%	3.99%
Jining City	93.6	5.4%	2.34%	111.4	5.7%	2.79%	106.5	4.7%	2.73%	161.5	5.9%	4.18%	199.5	6.6%	4.61%
Dezhou City	81.0	4.7%	2.07%	76.0	3.9%	1.95%	155.8	7.0%	3.45%	224.6	8.1%	4.41%	212.4	7.1%	3.60%
Yantai City	62.6	3.7%	1.92%	80.5	4.1%	2.47%	66.9	3.0%	1.72%	199.7	7.2%	3.96%	181.1	6.0%	3.67%
Linyi City	66.2	3.9%	2.07%	61.2	3.1%	1.91%	93.3	4.2%	1.92%	150.1	5.4%	1.78%	251.2	8.4%	2.92%
Dongying City	95.1	5.5%	3.02%	138.1	7.1%	4.39%	223.3	10.0%	6.75%	191.8	7.0%	6.12%	173.4	5.8%	5.34%
Weifang City	50.3	2.9%	2.45%	43.6	2.2%	2.12%	53.3	2.4%	2.69%	73.2	2.7%	1.84%	107.1	3.6%	1.17%
Zibo City	32.2	1.9%	1.81%	26.6	1.4%	1.50%	34.0	1.5%	1.92%	29.1	1.1%	1.25%	24.4	0.8%	0.98%
Laiwu City	19.8	1.2%	1.78%	24.0	1.2%	2.16%	11.7	0.5%	0.98%	11.9	0.4%	1.12%	10.9	0.4%	0.95%
Liaocheng City	4.0	0.2%	2.18%	2.4	0.1%	1.25%	6.1	0.3%	1.15%	24.6	0.9%	2.54%	23.0	0.8%	2.18%
Zaozhuang City	2.3	0.1%	1.76%	1.6	0.1%	1.23%	9.4	0.4%	1.37%	12.3	0.4%	1.24%	15.4	0.5%	1.12%
Tai'an City	–	–	–	–	–	–	6.6	0.3%	1.22%	20.5	0.7%	1.25%	21.4	0.7%	1.26%
Heze City	–	–	–	–	–	–	–	–	–	11.7	0.4%	1.33%	14.9	0.5%	0.94%
Tianjin Municipality	225.7	13.1%	3.17%	269.1	13.8%	3.78%	533.1	23.8%	6.94%	542.0	19.6%	8.29%	581.7	19.3%	10.82%
Total allowance for loans	**1,721.2**	**100.0%**	**2.59%**	**1,953.9**	**100.0%**	**2.94%**	**2,237.2**	**100.0%**	**2.98%**	**2,760.9**	**100.0%**	**2.99%**	**3,004.1**	**100.0%**	**2.90%**

Notes:

(1) Calculated by dividing allowance for impairment losses on loans in each region by gross loans in that region.

(2) Measured and recognized in accordance with the requirements of IAS 39.

(3) Measured and recognized in accordance with the requirements of IFRS 9.

Distribution of Allowance for Impairment Losses by Assessment Methodology

We began to adopt IFRS 9 on January 1, 2018. Pursuant to this accounting policy, neither collective nor individual assessment methodologies will be used to assess the allowance for impairment losses on loans to customers. The following table sets forth the distribution of the allowance for impairment losses on loans to customers by our assessment methodology as of the dates indicated:

	As of December 31, 2017(2)	
	Amount	Allowance to gross loan ratio(1)
	(in millions of RMB, except percentages)	
Collectively assessed	1,322.2	40.79%
Individually assessed	399.0	2.02%
Total allowance for loans	**1,721.2**	**2.59%**

	As of January 1, 2018(3) (unaudited)		As of December 31, 2018(3)		As of December 31, 2019(3)		As of March 31, 2020(3)	
	Amount	Allowance to gross loan ratio(1)	Amount	Allowance to gross loan ratio(1)	Amount	Allowance to gross loan ratio(1)	Amount	Allowance to gross loan ratio(1)
	(in millions of RMB, except percentages)							
Stage 1	619.7	1.08%	739.3	1.12%	922.9	1.08%	995.8	1.06%
Stage 2	870.7	11.81%	652.8	13.12%	849.3	12.44%	944.7	13.10%
Stage 3	463.5	46.50%	845.1	47.69%	988.7	46.08%	1,063.6	44.54%
Total allowance for loans	**1,953.9**	**2.94%**	**2,237.2**	**2.98%**	**2,760.9**	**2.99%**	**3,004.1**	**2.90%**

Notes:

(1) Calculated by dividing the allowance for impairment losses on loans in each category by gross loans in that category.

(2) Measured and recognized in accordance with the requirements of IAS 39.

(3) Measured and recognized in accordance with the requirements of IFRS 9.

Distribution of Allowance for Impairment Losses on Corporate Loans by Industry

The following table sets forth the allowance for impairment losses on corporate loans by industry as of the dates indicated:

	As of December 31,			As of January 1,			As of December 31,						As of March 31,		
	2017[3]			2018[4] (unaudited)			2018[4]			2019[4]			2020[4]		
	Amount	% of total	Allowance to gross loan ratio[1]	Amount	% of total	Allowance to gross loan ratio[1]	Amount	% of total	Allowance to gross loan ratio[1]	Amount	% of total	Allowance to gross loan ratio[1]	Amount	% of total	Allowance to gross loan ratio[1]
	(in millions of RMB, except percentages)														
Manufacturing	646.1	45.7%	3.03%	744.6	41.9%	3.49%	1,230.9	61.0%	5.98%	1,087.8	45.4%	6.19%	1,116.6	43.8%	6.38%
Wholesale and retail	355.1	25.2%	4.49%	462.0	26.0%	5.84%	337.0	16.7%	4.53%	729.4	30.4%	9.64%	704.3	27.6%	9.48%
Water conservancy, environment and public facilities management	108.5	7.7%	1.78%	164.9	9.3%	2.70%	79.4	3.9%	1.57%	107.4	4.5%	1.90%	169.2	6.6%	2.26%
Construction	78.2	5.5%	1.98%	80.0	4.5%	2.03%	73.5	3.6%	1.66%	93.2	3.9%	1.45%	121.6	4.8%	1.45%
Leasing and business services	70.5	5.0%	1.81%	99.8	5.6%	2.56%	103.2	5.1%	1.50%	142.6	5.9%	1.33%	169.4	6.6%	1.55%
Real estate	15.5	1.1%	0.76%	31.4	1.8%	1.53%	21.2	1.1%	1.13%	59.4	2.5%	1.30%	66.2	2.6%	1.19%
Agriculture, forestry, animal husbandry and fishery	22.4	1.6%	1.81%	55.2	3.1%	4.47%	23.2	1.1%	1.60%	43.2	1.8%	2.30%	50.2	2.0%	2.06%
Transportation, warehousing and postal services	36.4	2.6%	4.17%	19.1	1.1%	2.19%	27.7	1.4%	1.96%	28.2	1.2%	1.59%	33.6	1.3%	1.84%
Electricity, gas and water production and supply	30.4	2.2%	2.51%	36.1	2.0%	2.98%	16.7	0.8%	1.29%	15.1	0.6%	1.33%	26.6	1.1%	1.12%
Hygiene and social welfare	8.4	0.6%	1.77%	20.0	1.1%	4.21%	11.9	0.6%	2.11%	16.3	0.7%	1.56%	18.6	0.7%	1.77%
Culture, sports and entertainment	7.4	0.5%	1.77%	6.0	0.3%	1.44%	9.6	0.5%	1.15%	25.1	1.0%	3.42%	15.3	0.6%	1.58%
Others[2]	32.1	2.3%	1.87%	59.5	3.3%	3.47%	84.4	4.2%	5.39%	51.2	2.1%	1.17%	58.9	2.3%	1.22%
Total allowance for corporate loans	**1,411.0**	**100.0%**	**2.76%**	**1,778.6**	**100.0%**	**3.47%**	**2,018.7**	**100.0%**	**3.78%**	**2,398.9**	**100.0%**	**3.78%**	**2,550.5**	**100.0%**	**3.60%**

Notes:

(1) Calculated by dividing allowance for impairment losses on corporate loans in each industry by gross corporate loans in that industry.

(2) Consists primarily of scientific research and technical services, information transmission, software and information technology services, and resident services, maintenance and other services.

(3) Measured and recognized in accordance with the requirements of IAS 39.

(4) Measured and recognized in accordance with the requirements of IFRS 9.

Financial Investments

Financial investments are another important component of our assets, which amounted to RMB91,314.9 million, RMB93,611.5 million, RMB89,128.4 million and RMB94,904.6 million as of December 31, 2017, 2018, 2019 and March 31, 2020, representing 44.6%, 46.1%, 39.7% and 40.3% of our total assets as of the same dates, respectively. The decrease in balance of financial investments and decrease in financial investments as a percentage of our total assets from 2018 to 2019 was primarily because we adjusted our financial investment portfolio and reduced the scale of certain SPV Investment pursuant to policies regulating SPV Investment issued by the PBoC and CBIRC in recent years.

Except as otherwise indicated, the following discussion is based on our gross financial investments before taking into account the interest accrued and the allowance for impairment losses.

Classification of Financial Investments by Business Model and Cashflow Characteristics

In accordance with IAS 39 which we adopted before January 1, 2018, we classify our financial investments into:

(i) financial investments measured at fair value through profit or loss. Our financial investments measured at fair value through profit or loss primarily comprise debt securities, certificates of interbank deposit and investment in fund that we held for the purpose of selling or repurchasing in the near term, and financial instruments managed in a pattern of short-term profit taking.

(ii) available-for-sale financial assets. Our available-for-sale financial assets primarily comprise debt securities and certificates of interbank deposit that are non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial investments measured at fair value through profit or loss.

(iii) held-to-maturity investments. Our held-to-maturity investments primarily comprise debt securities that are non-derivative financial assets with fixed or determinable payments and fixed maturity that we have the positive intention and ability to hold to maturity, other than (a) those that we, upon initial recognition, designate at fair value through profit or loss or as available-for-sale; or (b) those that meet the definition of loans and receivables.

(iv) investments classified as receivables. Our investments classified as receivables primarily comprise investment in trust plans and asset management plans that are non-derivative financial assets with fixed or determinable payments not quoted in an active market.

In accordance with IFRS 9 which we adopted starting from January 1, 2018, we classify our financial assets by business model and cashflow characteristics of financial assets into the following categories:

(i) financial investments measured at amortized cost. A financial investment is measured at amortized cost if it meets both of the following conditions and is not designated as financial investments measured at fair value through profit or loss: (a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Our financial investments at amortized cost primarily comprise investment in debt securities and SPV Investment in trust plans and asset management plans;

(ii) financial investments measured at fair value through other comprehensive income. An investment in debt securities is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as financial investments measured at fair value through profit or loss: (a) it is held within a business model whose objective is set for both collecting contractual cash flows and selling such financial assets; and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial investments measured at fair value through other comprehensive income also include equity investment designated as financial investments measured at fair value through other comprehensive income. Our financial investments at fair value through other comprehensive income primarily comprise debt securities, equity investment and interbank deposits;

(iii) financial investments measured at fair value through profit or loss. All financial investments not classified as measured at amortized cost or financial investments measured at fair value through other comprehensive income as described above are designated as financial investments measured at fair value through profit or loss. Our financial investments measured at fair value through profit or loss primarily comprise investment in debt securities, SPV Investment in wealth management plans and interbank deposits.

The following table sets forth the distribution of our financial investments by business model and cashflow characteristics as of the dates indicated. For further details on the components of each category of our financial investments, please see Note 19 of the Accountants' Report in Appendix I to this prospectus.

	As of December 31,		As of January 1,		As of December 31,		As of December 31,		As of March 31,	
	2017		2018[1] (unaudited)		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Financial investments measured at amortized cost[2]	N/A	N/A	55,736.3	60.9%	51,559.0	55.6%	56,019.3	63.5%	52,182.9	55.6%
Financial investments measured at fair value through other comprehensive income[2]	N/A	N/A	3,578.7	3.9%	18,207.8	19.6%	13,621.1	15.5%	23,874.3	25.5%
Financial investments measured at fair value through profit or loss[3]	5,362.5	5.8%	32,160.9	35.2%	23,008.7	24.8%	18,507.1	21.0%	17,747.1	18.9%
Available-for-sale financial assets[4]	6,950.1	7.6%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Held-to-maturity investments[4]	41,167.4	44.9%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Investments classified as receivables[4]	38,202.4	41.7%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross financial investments	**91,682.4**	**100.0%**	**91,475.9**	**100.0%**	**92,775.5**	**100.0%**	**88,147.5**	**100.0%**	**93,804.3**	**100.0%**
Interest accrued[5]	N/A		N/A		1,005.9		1,281.4		1,465.8	
Less: allowance for impairment losses[6]	(367.5)		(162.4)		(169.9)		(300.5)		(365.5)	
Net financial investments	**91,314.9**		**91,313.5**		**93,611.5**		**89,128.4**		**94,904.6**	

Notes:

(1) We adopted IFRS 9 starting from January 1, 2018. According to this accounting policy, our available-for-sale financial assets were reclassified to financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and our held-to-maturity investments were reclassified to financial investments measured at amortized cost. Meanwhile, investments classified as receivables were reclassified to financial investments measured at amortized cost and financial investments measured at fair value through profit or loss.

(2) Prepared in accordance with IFRS 9, effective from January 1, 2018.

(3) The balance of financial investments measured at fair value through profit or losses prior to January 1, 2018 was classified in accordance with IAS 39 and the balance of financial investments measured at fair value through profit or losses on or after January 1, 2018 was classified in accordance with IFRS 9.

(4) Prepared in accordance with IAS 39 that we adopted prior to January 1, 2018.

(5) Pursuant to the relevant regulatory policy issued by the MOF in December 2018, the interest accrued on financial instruments measured based on the effective interest rate method should be included in the book balance of relevant financial instruments for 2018.

(6) The amount on or after January 1, 2018 only includes allowance for impairment losses on financial investments measured at amortized cost. Allowance for impairment losses on financial investments measured at fair value through other comprehensive income is recognized in the "impairment reserve", which does not affect the book value of financial investments reported in our statements of financial position. As of January 1, 2018 and December 31, 2018, the allowance for impairment losses on financial investments measured at fair value through other comprehensive income recognized in the impairment reserve was RMB0.4 million and RMB3.2 million, respectively.

Our financial investments measured at amortized cost primarily comprise debt securities and investment in trust plans and asset management plans. After the adoption of IFRS 9 on January 1, 2018, our financial investments measured at amortized costs decreased from RMB55,736.3 million as of January 1, 2018 to RMB51,559.0 million as of December 31, 2018, primarily because in line with our investment strategies, risk appetite and risk management, we took the prudent approach in shrinking our investment in non-credit based SPV Investment. In addition, we also decreased our investment in collective trust plans and collective asset management plans caused by the impact from stricter regulatory policies regulating such SPV Investment such as the Measures for the Administration of the Large Risk Exposures of Commercial Banks (《商業銀行大額風險暴露管理辦法》) (the "**2018 Measures**"). For details, please see "Supervision and Regulation — Risk Management — Large Risk Exposure Management". Our financial investments measured at amortized costs increased from RMB51,559.0 million as of December 31, 2018 to RMB56,019.3 million as of December 31, 2019, primarily due to our adjustment to investment portfolio structure in order to increase investment in debt securities with higher returns. Our financial investments measured at amortized costs decreased by 6.8% from RMB56,019.3 million as of December 31, 2019 to RMB52,182.9 million as of March 31, 2020, primarily due to the maturity of part of our financial investment measured at amortized costs.

Our financial investments measured at fair value through other comprehensive income primarily comprise debt securities and certificates of interbank deposit. Our financial investments measured at fair value through other comprehensive income increased from RMB3,578.7 million as of January 1, 2018 to RMB18,207.8 million as of December 31, 2018, primarily due to the increase in certificates of interbank deposits based on the market condition and our needs for liquidity management. Our financial investments measured at fair value through other comprehensive income decreased from RMB18,207.8 million as of December 31, 2018 to RMB13,621.1 million as of December 31, 2019, primarily due to the decrease in certificates of interbank deposits as we adjusted our investment portfolio structure. Our financial investments measured at fair value through other comprehensive income increased by 75.3% from RMB13,621.1 million as of December 31, 2019 to RMB23,874.3 million as of March 31, 2020, primarily because we adjusted our investment portfolio structure based on our investment strategy and risk management approach so as to include more liquid assets with high yield during the first quarter of 2020.

Our financial investments measured at fair value through profit or loss primarily comprise debt securities and investment in trust plans, asset management plans, funds and wealth management products issued by other banks. Our gains of financial investments measured at fair value through profit or loss was RMB5,362.5 million as of December 31, 2017. According to IFRS 9, which we have adopted since January 1, 2018, our financial investments measured at fair value through profit or loss decreased from RMB32,160.9 million as of January 1, 2018 to RMB23,008.7 million as of December 31, 2018 and further decreased to RMB18,507.1 million as of December 31, 2019. The continue decrease was primarily, because we gradually reduced our investments in asset management plans and funds since 2018, in accordance with the relevant regulatory policies issued by the CBIRC. Our financial investments measured at fair value through profit or loss amounted to RMB17,747.1 million as of March 31, 2020, representing a decrease of 4.1% as compare to our financial investments measured at fair value through profit or loss as of December 31, 2019. The decrease was primarily we disposed part of our debt securities investment on the first quarter of 2020. During the Track Record Period, apart from the impact of the change of accounting standards, the change in our financial investments measured at fair value through profit or loss was mainly because we continued to decrease our investment in asset management plans and funds according to the relevant regulatory policies in respect of SPV Investment.

Our available-for-sale financial assets primarily consist of debt securities, certificates of interbank deposit and investment in wealth management plans and funds. Our available-for-sale financial assets amounted to RMB6,950.1 million as of December 31, 2017. Upon the adoption of IFRS 9, (i) our available-for-sale financial assets that are not held for collection of contractual cash flows representing solely payments of principal and interest have been reclassified to financial investments measured at fair value through profit or loss and (ii) the remaining available-for-sale financial assets have been reclassified to financial investments measured at fair value through other comprehensive income. For details of the impact of IFRS 9, please see "Financial Information — Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Our held-to-maturity investments consist primarily of debt securities issued by the PRC Government and policy banks. Our held-to-maturity investments amounted to RMB41,167.4 million as of December 31, 2017. Our held-to-maturity investments have been reclassified to financial investments measured at amortized cost due to adoption of IFRS 9 on January 1, 2018. For details of the impact of IFRS 9, please see "Financial Information — Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Our investments classified as receivables consist primarily of investment in trust plans and asset management plans. Our investments classified as receivables amounted to RMB38,202.4 million as of December 31, 2017. Our investments classified as receivables have been reclassified to financial investments measured at amortized cost and financial investments measured at fair value through profit or loss due to adoption of IFRS 9 on January 1, 2018. For details on the impact of IFRS 9, please see "Financial Information — Critical Accounting Judgements and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

For details relating to our risk management in connection with our financial investments, please see "Risk Management — Credit Risk Management — Credit Risk Management for Our Financial Market Business — Credit Risk Management for Debt Securities Investment and SPV Investment".

The table below sets forth the distribution of our financial investments by remaining maturities as of the date indicated:

	As of March 31, 2020							
	Indefinite	Due in 1 month or less	Due over 1 month up to 3 months	Due over 3 months up to 1 year	Due over 1 year up to 5 years	Due in more than 5 years	Overdue	Total
	(in millions of RMB)							
Maturity Profile								
Financial investments measured at fair value through profit or loss	—	—	2,327.1	5,876.9	8,914.1	629.0	—	17,747.1
Financial investments measured at amortized cost	—	1,448.0	2,604.0	4,051.2	26,380.0	16,804.7	895.0	52,182.9
Financial investments measured at fair value through other comprehensive income	193.7	350.5	104.6	2,289.7	8,372.9	12,562.9	—	23,874.3
Total financial investment	**193.7**	**1,798.5**	**5,035.7**	**12,217.8**	**43,667.0**	**29,996.6**	**895.0**	**93,804.3**

Carrying Value and Fair Value

The following table sets forth our financial investments that have differences between their carrying values and fair values as of the dates indicated:

	As of December 31,						As of March 31,	
	2017(1)		2018(2)		2019(2)		2020(2)	
	Carrying Value	Fair value	Carrying Value	Fair value	Carrying Value	Fair value	Carrying Value	Fair value
	(in millions of RMB)							
Financial investments at fair value through profit or loss	5,362.5	5,362.5	23,008.7	23,008.7	18,507.1	18,507.1	17,747.1	17,747.1
Available-for-sale financial assets	6,777.2	6,777.2	N/A	N/A	N/A	N/A	N/A	N/A
Held-to-maturity investments	41,167.3	39,568.3	N/A	N/A	N/A	N/A	N/A	N/A
Debt securities classified as receivables	38,007.9	38,007.9	N/A	N/A	N/A	N/A	N/A	N/A
Financial investments at amortized cost	N/A	N/A	52,081.9	51,946.3	56,722.1	56,822.4	52,761.8	52,948.6
Financial investments at fair value through other comprehensive income	N/A	N/A	18,520.9	18,520.9	13,899.2	13,899.2	24,395.7	24,395.7
Net financial investments	**91,314.9**	**89,715.9**	**93,611.5**	**93,475.9**	**89,128.4**	**89,228.7**	**94,904.6**	**95,091.4**

Notes:

(1) IAS 39 was adopted prior to January 1, 2018.

(2) IFRS 9 was adopted from January 1, 2018 onwards.

Other than the financial investments above, there is no material difference between the carrying value and the fair value of our other financial investments not measured at fair value in our statement of financial position.

Distribution of Financial Investments by Product Type

Our financial investments consist primarily of debt securities investment and SPV Investment. Our SPV Investment refers to investment through investment vehicles such as trust plans, asset management plans, wealth management products and funds. Due to the nature of the trust plans and asset management plans, we categorize them into credit based and non-credit based. Credit based SPV Investment such as those credit based trust plans or credit based asset management plans refers to the SPV Investment with a single ultimate borrower that uses the proceeds raised from SPV investor(s) to satisfy the financing needs of above-mentioned borrower through transaction structures permitted by the PRC's laws and regulations. Non-credit based SPV Investment such as those non-credit based trust plans or non-credit based assets management plans refers to the SPV Investment with a portfolio of securities as its underlying assets. The entrusted counterparty (such as trust company or asset management company) will act as the portfolio manager to manage, invest and reinvest the proceeds raised from SPV investor(s) into different securities (usually debt securities). Due to the nature of debt securities, it is not possible to statistically classify the ultimate investment by industry or underlying assets as the trust company or asset management company is under no obligation to seek consent from the SPV investor(s) before each investment or disposal of underlying assets or to provide details of each of its investment or disposal decision to the SPV investors(s). In addition, such details were not disclosed by the entrusted counterparty in the public domain and under such circumstances, it is impossible for SPV investor like us to categorize the underlying assets. For wealth management products and funds, we do not categorize them based on "credit based" or "non-credit based" and they are essentially all non-credit based. The following table sets forth the components of our financial investments as of the dates indicated:

	As of December 31,		As of January 1,		As of December 31,				As of March 31,	
	2017[1]		2018[2] (unaudited)		2018[2]		2019[2]		2020[2]	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Debt securities investment	48,477.3	52.9%	48,456.2	53.0%	51,048.7	55.0%	53,474.2	60.7%	60,842.3	64.9%
SPV Investment										
Credit based SPV Investment										
Trust plans	13,102.4	14.3%	13,101.8	14.3%	13,177.7	14.2%	15,418.0	17.5%	15,066.7	16.1%
Asset management plans	1,198.5	1.3%	1,198.4	1.3%	900.0	1.0%	695.0	0.8%	595.0	0.6%
Others financial investments	400.0	0.4%	399.7	0.4%	3,404.3	3.7%	5,398.4	6.1%	6,810.6	7.3%
Subtotal	14,700.9	16.0%	14,699.9	16.0%	17,482.0	18.9%	21,511.4	24.4%	22,472.3	24.0%
Non-credit based SPV Investment										
Trust plans	11,495.3	12.5%	11,488.7	12.6%	6,628.0	7.1%	5,504.8[5]	6.2%	5,143.8	5.5%
Asset management plans	12,006.2	13.1%	12,002.7	13.1%	5,888.7	6.3%	2,551.1	2.9%	1,257.7	1.3%
Wealth management products	511.1	0.6%	510.9	0.6%	1,115.1	1.2%	1,019.5	1.2%	506.7	0.5%
Funds	2,687.3	2.9%	2,686.4	2.9%	769.7	0.8%	699.9	0.8%	710.1	0.8%
Other financial investments[3]	56.0	0.1%	56.0	0.1%	2,544.2	2.8%	1,423.2	1.6%	1,536.7	1.6%
Subtotal	26,755.9	29.2%	26,744.7	29.3%	16,945.7	18.2%	11,198.5	12.7%	9,155.0	9.7%
Total SPV Investment	**41,456.8**	**45.2%**	**41,444.6**	**45.3%**	**34,427.7**	**37.1%**	**32,709.9**	**37.1%**	**31,627.3**	**33.7%**
Equity investment	**264.1**	**0.3%**	**91.1**	**0.1%**	**71.1**	**0.1%**	**195.6**[6]	**0.2%**	**193.7**	**0.2%**
Other financial investments[4]	**1,484.2**	**1.6%**	**1,484.1**	**1.6%**	**7,228.0**	**7.8%**	**1,767.8**	**2.0%**	**1,141.0**	**1.2%**
Total financial investment	**91,682.4**	**100.0%**	**91,476.0**	**100.0%**	**92,775.5**	**100.0%**	**88,147.5**	**100.0%**	**93,804.3**	**100.0%**
Accrued interest	N/A		N/A		1,005.9		1,281.4		1,465.8	
Allowance for impairment on financial investments at amortized cost	(367.5)		(162.4)		(169.9)		(300.5)		(365.5)	
Net financial investments	**91,314.9**		**91,313.6**		**93,611.5**		**89,128.4**		**94,904.6**	

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

(3) Consist primarily of debt financing plans and asset-backed securities.

(4) Consist primarily of certificates of interbank deposit.

(5) This included the Trust Beneficiary Right Swap. For details of the Trust Beneficiary Right Swap, please see "Assets and Liabilities – Assets – Asset Quality of Our Loan Portfolio – Changes in Asset Quality of Our Loans".

(6) This included the Equity Swap A and Equity Swap B. For details of the Equity Swap A, please see "Assets and Liabilities – Assets – Asset Quality of Our Loan Portfolio – Changes in Asset Quality of Our Loans" and for details of the Equity Swap B, please see "Assets and Liabilities – Assets – Financial Investments – Impairment Allowance of Financial Investments by Product Type".

Impairment Allowance of Financial Investments by Product Type

The following table sets forth the impairment allowance of our financial investments as of the date indicated:

	As of December 31,		As of January 1,		As of December 31,				As of March 31,	
	2017[1]		2018[2] (unaudited)		2018[2]		2019[2]		2020[2]	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Debt securities investment	–	–	7.5	4.6%	11.4	6.7%	126.4[5]	42.1%	191.6	52.4%
SPV Investment										
Credit based SPV Investment										
Trust plans	182.5	49.7%	133.4	82.2%	136.6	80.4%	138.7	46.2%	139.6	38.2%
Asset management plans	12.0	3.3%	10.9	6.7%	9.5	5.6%	7.1	2.3%	6.2	1.7%
Other financial investment	–	–	–	–	–	–	12.8	4.2%	12.9	3.5%
Subtotal	194.5	53.0%	144.3	88.9%	146.1	86.0%	158.6	52.7%	158.7	43.4%
Non-credit based SPV Investment										
Trust plans	–	–	10.3	6.3%	10.6	6.3%	14.9	5.0%	14.5	4.0%
Asset management plans	–	–	–	–	–	–	–	–	–	–
Wealth management products	–	–	–	–	–	–	–	–	–	–
Funds	–	–	–	–	–	–	–	–	–	–
Other financial investments[3]	–	–	0.0	0.0%	1.7	1.0%	0.6	0.2%	0.7	0.2%
Subtotal	–	–	10.3	6.3%	12.3	7.3%	15.5	5.2%	15.2	4.2%
Total SPV Investment	**194.5**	**53.0%**	**154.6**	**95.2%**	**158.4**	**93.3%**	**174.1**	**57.9%**	**173.9**	**47.6%**
Equity investments	173.0[6]	47.0%	–	–	–	–	–	–	–	–
Other financial investments[4]	–	–	0.3	0.2%	0.1	0.0%	–	–	–	–
Total financial investments	**367.5**	**100.0%**	**162.4**	**100.0%**	**169.9**	**100.0%**	**300.5**	**100.0%**	**365.5**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

(3) Consist primarily of debt financing plans and asset-backed securities.

(4) Consist primarily of certificates of interbank deposit.

(5) Our impairment allowance on debt securities investment increased from RMB11.4 million as of December 31, 2018 to RMB126.4 million as of December 31, 2019 was primarily due to the adjustment of credit ratings of some of our debt securities investments. In line with our risk management policies and our prudent approach in managing our investments in debt securities, we increased the impairment allowance.

(6) The impairment allowance recognized here mainly attributed to a debt securities investment we had invested in 2015 (with the principal sum of RMB200.0 million) (the "**2015 Debt Securities Investment**"). The corporate issuer (operated in manufacturing industry) of the 2015 Debt Securities Investment defaulted its payment in July 2016 due to financial difficulties. In August 2017, Dalian Intermediate People's Court approved and endorsed the restructuring plan submitted by the corporate issuer and under the restructuring plan, we swapped our debt securities investment with equity and recognized a loss of RMB173.0 million (the "**Equity Swap B**"). The related assets after the swap arrangement has been presented in the available-for-sale financial assets in 2017. After the adoption of IFRS 9, the related assets has been reclassified as financial assets at fair value through other comprehensive income.

Debt Securities Investments

Debt securities investments accounted for 52.9%, 55.0%, 60.7% and 64.9% of our total financial investments as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. The debt securities investments we held consist of debt securities issued by PRC Government, policy banks, commercial banks and other financial institutions, and corporate issuers. All of the debt securities investments we held as of December 31, 2017, 2018, 2019 and March 31, 2020 were denominated in Renminbi. During the Track Record Period, in line with our investment strategy, risk appetite and risk management policies, all of our investments in debt securities issued by other financial institutions and corporate issuers were substantially all with credit rating of AA-, AA or AAA and above. The following table sets forth the components of our debt securities investment classified by issuer as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Debt securities issued by PRC Government	14,840.7	30.6%	12,731.1	24.9%	14,306.8	26.7%	15,240.1	25.0%
Debt securities issued by policy banks	24,722.7	51.0%	26,686.4	52.3%	24,755.9	46.3%	26,927.4	44.3%
Debt securities issued by commercial banks and other financial institutions	1,107.1	2.3%	1,058.9	2.1%	513.9	1.0%	466.6	0.8%
Debt securities issued by corporate issuers	7,806.8	16.1%	10,572.3	20.7%	13,897.6	26.0%	18,208.2	29.9%
Total debt securities investment	**48,477.3**	**100.0%**	**51,048.7**	**100.0%**	**53,474.2**	**100.0%**	**60,842.3**	**100.0%**

Debt securities investment increased by 5.3% from RMB48,477.3 million as of December 31, 2017 to RMB51,048.7 million as of December 31, 2018, and further increased by 4.8% to RMB53,474.2 million as of December 31, 2019. Our debt securities investments amounted to RMB60,842.3 million as of March 31, 2020, representing an increase of 13.8% as compared to our debt securities investments as of December 31, 2019. The continued increase primarily because we adjusted the investment structure through increasing debt securities investment (such as debt securities issued by enterprises) during the Track Record Period in response to relevant regulatory policies after taking into account the yield rates and risk conditions.

Debt securities issued by PRC Government decreased by 14.2% from RMB14,840.7 million as of December 31, 2017 to RMB12,731.1 million as of December 31, 2018, mainly because we adjusted our investment portfolios in line with our investment strategy and risk management policies, allocating more resources to the investments in debt securities issued by policy banks and corporates. As of December 31, 2019, debt securities issued by PRC Government increased by 12.4% to RMB14,306.8 million and further increased by 6.5% to

RMB15,240.1 million as of March 31, 2020, mainly because we adjusted our asset structure by increasing investments in debt securities issued by PRC Government and such debt securities are usually featured with relatively higher liquidity and lower risks.

During the Track Record Period, debt securities issued by policy banks were the largest component of our debt securities portfolio, accounting for 51.0%, 52.3%, 46.3% and 44.3% of our total debt securities portfolio as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. Debt securities issued by policy banks increased by 7.9% from RMB24,722.7 million as of December 31, 2017 to RMB26,686.4 million as of December 31, 2018, primarily because we increased the investment in the debt securities issued by policy banks in accordance with our investment strategy, and such debt securities have relatively higher liquidity and lower risks. As of December 31, 2019, the debt securities issued policy banks decreased to RMB24,755.9 million, primarily because following regulatory policy, considering yield and risk conditions, we adjusted our investment structure and allocated more resources to the debt securities issued by PRC Government and corporate issuers. Our holding of debt securities issued by policy banks increased by 8.8% from RMB24,755.9 million as of December 31, 2019 to RMB26,927.4 million as of March 31, 2020, primarily because we increased the investment in the debt securities issued by policy banks in accordance with our investment strategy, and such debt securities have relatively higher liquidity and lower risks.

Debt securities issued by commercial banks and other financial institutions decreased by 4.4% from RMB1,107.1 million as of December 31, 2017 to RMB1,058.9 million as of December 31, 2018, and further decreased by 51.5% to RMB513.9 million as of December 31, 2019. Our debt securities issued by commercial banks and other financial institutions amounted to RMB466.6 million as of March 31, 2020, representing a decrease of 9.2% as compared to our debt securities issued by commercial banks and other financial institutions as of December 31, 2019. The continued decrease primarily because we adjusted our investment portfolio, and allocated more resources to the debt securities issued by PRC Government and corporate issuers according to our investment strategy and risk management policy.

Debt securities issued by corporate issuers increased by 35.4% from RMB7,806.8 million as of December 31, 2017 to RMB10,572.3 million as of December 31, 2018, and further increased by 31.5% to RMB13,897.6 million as of December 31, 2019. Our debt securities issued by corporate issuers amounted to RMB18,208.2 million as of March 31, 2020, representing an increase of 31.0% as compared to our debt securities issued by corporate issuers as of December 31, 2019. The continued increase primarily because we adjusted our investment portfolio and increased the investment in corporate bonds with higher yield.

The following table sets forth the distribution of our debt securities investment by nature:

	As of December 31,		As of January 1,		As of December 31,				As of March 31,	
	2017(1)		2018(2) (unaudited)		2018(2)		2019(2)		2020(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Classification of debt securities										
Financial investments measured at amortized cost	N/A	N/A	39,627.2	81.8%	33,472.7	65.6%	37,968.8	71.0%	35,400.3	58.2%
Financial investments measured at fair value through other comprehensive income	N/A	N/A	3,487.6	7.2%	11,906.4	23.3%	11,577.4	21.7%	22,458.8	36.9%
Financial investments measured at fair value through profit or loss	5,362.5	11.1%	5,341.4	11.0%	5,669.6	11.1%	3,928.0	7.3%	2,983.2	4.9%
Available-for-sale financial assets	3,487.6	7.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Held-to-maturity investments	39,627.2	81.7%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Investments classified as receivables	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total debt securities investment	**48,477.3**	**100.0%**	**48,456.2**	**100.0%**	**51,048.7**	**100.0%**	**53,474.2**	**100.0%**	**60,842.3**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

The following table sets forth the balance of our debt securities portfolio by remaining maturity as of the date indicated:

	As of March 31, 2020					
	Due within 3 months inclusive	Due over 3 months to 12 months inclusive	Due between 1 to 5 years inclusive	Due over 5 years inclusive	Overdue	Total
	(in millions of RMB)					
Debt securities issued by PRC Government	21.7	398.9	6,705.8	8,113.7	—	15,240.1
Debt securities issued by policy banks	451.0	1,521.0	7,986.2	16,969.2	—	26,927.4
Debt securities issued by commercial banks and other financial institutions	—	407.2	49.4	10.0	—	466.6
Debt securities issued by corporate issuers	233.4	1,267.4	14,545.6	2,161.8	—	18,208.2
Total debt securities investment	**706.1**	**3,594.5**	**29,287.0**	**27,254.7**	**—**	**60,842.3**

The following table sets forth a breakdown of our debt securities investment between fixed interest rates and floating interest rates as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Fixed interest rates	46,399.4	95.7%	48,423.0	94.9%	47,635.3	89.1%	52,246.7	85.9%
Floating interest rates	2,077.9	4.3%	2,625.7	5.1%	5,838.9	10.9%	8,595.6	14.1%
Total debt securities investment	**48,477.3**	**100.0%**	**51,048.7**	**100.0%**	**53,474.2**	**100.0%**	**60,842.3**	**100.0%**

SPV Investment

Our SPV Investment is made through trust plans, asset management plans, wealth management products or funds, where we entrust our counterparties to manage our funds and provide financing to financing parties/ultimate borrowers or invest our funds in specific investment portfolios such as debt securities and money market products. For details, please see "Business — Financial Markets — Investment Management — SPV Investment".

Trust Plans

	As of December 31,		As of January 1,		As of December 31,				As of March 31,	
	2017(1)		2018(2) (unaudited)		2018(2)		2019(2)		2020(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Financial investments measured at amortized cost	N/A	N/A	13,524.0	55.0%	13,644.4	68.9%	14,762.6	70.6%	13,906.8	68.8%
Financial investments measured at fair value through profit or loss	N/A	N/A	11,066.5	45.0%	6,161.3	31.1%	6,160.2	29.4%	6,303.7	31.2%
Available-for-sale financial assets	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Investments classified as receivables	24,597.7	100.0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total investments in trust plans	**24,597.7**	**100.0%**	**24,590.5**	**100.0%**	**19,805.7**	**100.0%**	**20,922.8**	**100.0%**	**20,210.5**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

Through investing in trust plans managed by trust companies, we entrust trust companies to manage our funds, while trust companies provide financing to the financing parties as trustees. Our holding of trust plans decreased from RMB24,597.7 million as of December 31, 2017 to RMB19,805.7 million as of December 31, 2018, primarily because we adjusted investment portfolio and reduced investment in non-credit based trust plans in accordance with our investment strategy, risk appetite, risk management and the regulatory policies issued in recent year regulating the SPV Investment such as the 2018 Measures. For details, please see "Supervision and Regulation — Risk Management — Large Risk Exposure Management". The trust plans held by us slightly increased to RMB20,922.8 million as of December 31, 2019, primarily because we adjusted our investment portfolio according to our investment strategy and risk management policy and allocated resources to trust plan for better returns. The trust plans held by us decreased slightly by 3.4% from RMB20,922.8 million as of December 31, 2019 to RMB20,210.5 million as of March 31, 2020, as we started to shift our focus to debt securities investments which have relatively higher liquidity as compare to trust plans in accordance with our investment strategy and liquidity management.

Asset Management Plans

	As of December 31,		As of January 1,		As of December 31,				As of March 31,	
	2017(1)		2018(2) (unaudited)		2018(2)		2019(2)		2020(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Financial investments measured at amortized cost	—	—	1,045.0	7.9%	900.0	13.3%	695.0	21.4%	595.0	32.1%
Financial investments measured at fair value through profit or loss	—	—	12,156.1	92.1%	5,888.7	86.7%	2,551.1	78.6%	1,257.7	67.9%
Investment classified as receivables	13,204.7	100.0%	—	—	—	—	—	—	—	—
Total investments in asset management plans	**13,204.7**	**100.0%**	**13,201.1**	**100.0%**	**6,788.7**	**100.0%**	**3,246.1**	**100.0%**	**1,852.7**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

We entered into asset management contracts with quality securities companies and other asset management institutions who then invest our funds in specified products, primarily including fixed-income credit assets and debt securities, through our designated accounts with third-party custodian banks. Our holding of asset management plans decreased from RMB13,204.7 million as of December 31, 2017 to RMB6,788.7 million as of December 31, 2018, and further decreased to RMB3,246.1 million as of December 31, 2019. Our holding of asset management plans amounted to RMB1,852.7 million as of March 31, 2020, representing a 42.9% decrease as compared to our holding of asset management plans as of December 31, 2019. The continued decrease primarily because we adjusted investment portfolio and reduced our investment in non-credit based asset management plans in accordance with our investment strategy, risk appetite, risk management and the regulatory policies issued in recent year regulating the SPV Investment such as the 2018 Measures. For details, please see "Supervision and Regulation — Risk Management — Large Risk Exposure Management".

Wealth Management Products Issued by Other Financial Institutions

	As of December 31, 2017[(1)]		As of January 1, 2018[(2)] (unaudited)		As of December 31, 2018[(2)]		As of December 31, 2019[(2)]		As of March 31, 2020[(2)]	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Financial investments measured at fair value through profit or loss	—	—	510.9	100.0%	1,115.1	100.0%	1,019.5	100.0%	506.7	100.0%
Available-for-sale financial assets	511.1	100.0%	—	—	—	—	—	—	—	—
Total investment in wealth management products	**511.1**	**100.0%**	**510.9**	**100.0%**	**1,115.1**	**100.0%**	**1,019.5**	**100.0%**	**506.7**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

Wealth management products issued by other financial institutions held by us increased from RMB511.1 million as of December 31, 2017 to RMB1,115.1 million as of December 31, 2018, primarily because we increased our investment in wealth management products issued by other financial institutions for better returns. As of December 31, 2019, holding of wealth management products issued by other financial institutions slightly decreased to RMB1,019.5 million, primarily due to the changes in the fair value of wealth management products, and further decreased by 50.3% to RMB506.7 million as of March 31, 2020, primarily due to the maturity of our existing investment in wealth management products and at the same time we had not increase any investment in wealth management products.

The following table sets forth a breakdown of our balance of the wealth management products issued by other financial institutions in which we invested by category as of the dates indicated:

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	(in millions of RMB)			
Principal-protected	—	—	—	—
Non-principal protected	511.1	1,115.1	1,019.5	506.7
Total balance of wealth management products	**511.1**	**1,115.1**	**1,019.5**	**506.7**

Funds

	As of December 31, 2017(1)		As of January 1, 2018(2) (unaudited)		As of December 31, 2018(2)		As of December 31, 2019(2)		As of March 31, 2020(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Funds										
Financial investments measured at fair value through profit or loss	—	—	2,686.4	100.0%	769.7	100.0%	699.9	100.0%	710.1	100.0%
Available-for-sale financial assets	2,687.3	100.0%	—	—	—	—	—	—	—	—
Total investment in funds	**2,687.3**	**100.0%**	**2,686.4**	**100.0%**	**769.7**	**100.0%**	**699.9**	**100.0%**	**710.1**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

The funds we hold include monetary funds and bond funds. Our holding of funds decreased from RMB2,687.3 million as of December 31, 2017 to RMB769.7 million as of December 31, 2018, and further decreased to RMB699.9 million as of December 31, 2019. The continued decrease in our holding of funds was primarily because we decreased the investment in the funds according to market condition and our investment strategy, and allocated more resources to other financial investments for better returns. Our holding of funds remained relatively steady at RMB710.1 million as of March 31, 2020 as compared to our holding of funds as of December 31, 2019 (representing a slight increase of 1.5%).

Distribution of Investment in credit-based Trust Plans and credit-based Asset Management Plans by Industry

The following table sets forth, as of March 31, 2020, the distribution of our investment in trust plans and asset management plans by industry:

	As of March 31, 2020				
	Trust plans	Asset management plans	Others	Total	% of total
	(in millions of RMB, except for percentages)				
Financial	1,943.9	—	507.5	2,451.4	10.8%
Leasing and business services	2,652.1	—	1,005.2	3,657.3	16.3%
Real estate	3,001.3	—	—	3,001.3	13.4%
Water conservancy, environment and public facilities management	5,319.8	—	2,898.1	8,217.9	36.5%
Construction	590.0	—	2,399.8	2,989.8	13.3%
Scientific research and technical services	259.6	—	—	259.6	1.2%
Wholesale and retail	500.0	—	—	500.0	2.2%
Electricity, gas and water production and supply	450.0	595.0	—	1,045.0	4.7%
Culture, sports and entertainment	350.0	—	—	350.0	1.6%
Total investment in trust plans and asset management plans	**15,066.7**	**595.0**	**6,810.6**	**22,472.3**	**100.0%**

Distribution of SPV Investment by Underlying Assets

The following table sets forth the breakdown of our SPV Investment by their underlying assets as of March 31, 2020:

	As of March 31, 2020						
	Trust plans	Asset management plans	Wealth management products[1]	Funds	Others	Total	% of total
	(in millions of RMB, except for percentages)						
Debt securities	—	—	—	710.1	—	710.1	2.2%
Fixed-income credit assets	20,210.5	—	—	—	6,810.6	27,021.1	85.4%
Wealth management products	—	—	506.7	—	—	506.7	1.6%
Fund pools/asset pools	—	1,852.7	—	—	—	1,852.7	5.9%
Others	—	—	—	—	1,536.7	1,536.7	4.9%
Total SPV investment	**20,210.5**	**1,852.7**	**506.7**	**710.1**	**8,347.3**	**31,627.3**	**100.0%**

Note:

(1) Referred to wealth management products issued by other financial institutions.

Distribution of SPV Investment by Collateral Type

According to relevant agreements we entered into, certain financing parties, third parties or guarantors are requested to provide security for the payment of principal and interest of our SPV Investment. The following table sets forth the breakdown of our SPV Investment by collateral type as of the dates indicated:

	As of December 31,													
	2017							2018						
	Trust plans	Asset management plans	Wealth management products(1)	Funds	Others	Total	% of total	Trust plans	Asset management plans	Wealth management products(1)	Funds	Others	Total	% of total
	(in millions of RMB, except for percentages)													
Pledge	1,199.2	1,055.0	–	–	–	2,254.2	15.3%	1,198.4	800.0	–	–	–	1,998.4	11.4%
Collateral	300.0	43.5	–	–	–	343.5	2.3%	300.0	–	–	–	–	300.0	1.7%
Guarantee	4,468.3	–	–	–	–	4,468.3	30.4%	3,540.6	–	–	–	–	3,540.6	20.3%
Unsecured	1,642.8	–	–	–	400.0	2,042.8	14.0%	950.0	–	–	–	3,404.3	4,354.3	24.9%
Others(2)	5,492.1	100.0	–	–	–	5,592.1	38.0%	7,188.7	100.0	–	–	–	7,288.7	41.7%
Total SPV Investment	**13,102.4**	**1,198.5**	**–**	**–**	**400.0**	**14,700.9**	**100.00%**	**13,177.7**	**900.0**	**–**	**–**	**3,404.3**	**17,482.0**	**100.00%**

	As of December 31,							As of March 31,						
	2019							2020						
	Trust plans	Asset management plans	Wealth management products(1)	Funds	Others	Total	% of total	Trust plans	Asset management plans	Wealth management products(1)	Funds	Others	Total	% of total
	(in millions of RMB, except for percentages)													
Pledge	1,198.0	595.0	–	–	–	1,793.0	8.3%	598.0	595.0	–	–	–	1,193.0	5.4%
Collateral	322.7	–	–	–	–	322.7	1.5%	300.0	–	–	–	–	300.0	1.3%
Guarantee	5,234.1	–	–	–	1,012.3	6,246.4	29.1%	4,729.1	–	–	–	1,017.2	5,746.3	25.6%
Unsecured	1,100.9	–	–	–	4,386.1	5,487.0	25.5%	1,429.7	–	–	–	5,793.4	7,223.1	32.1%
Others(2)	7,562.3	100.0	–	–	–	7,662.3	35.6%	8,009.9	–	–	–	–	8,009.9	35.6%
Total SPV Investment	**15,418.0**	**695.0**	**–**	**–**	**5,398.4**	**21,511.4**	**100.00%**	**15,066.7**	**595.0**	**–**	**–**	**6,810.6**	**22,472.3**	**100.0%**

Notes:

(1) Referred to wealth management products issued by other financial institutions.

(2) Referred to a combination of multiple collateral types.

As of December 31, 2017, 2018, 2019 and March 31, 2020, unsecured SPV Investment represented 14.0%, 24.9%, 25.5% and 32.1%, respectively, of our total SPV Investment. The ultimate borrowers for the underlying assets of our unsecured SPV Investment are companies which we believe have strong business and operational capability, repayment ability, sufficient repayment sources, core competitiveness in their respective industries or markets and benefited from government policy support, such as well-established state-owned enterprises with strong financing capabilities. As of the Latest Practicable Date, the credit quality of our existing unsecured SPV Investment was in line with our credit extension and risk control policy. During the Track Record Period, we have been able to achieve expected returns from our unsecured SPV Investment. For details, please see "Risk Management — Credit Risk Management for Our Financial Market Business — Credit Risk Management for Debt Securities Investment and SPV Investment".

Distribution of Allowance for Impairment Losses on SPV Investment by Collateral

The following table sets forth our allowance for impairment losses on SPV Investment by collateral as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	SPV Investment	Impairment allowance	SPV Investment	Impairment allowance	SPV Investment	Impairment allowance	SPV Investment	Impairment allowance
	(in millions of RMB, except for percentages)							
Pledge								
Pledged with equity interests in listed companies	910.0	9.1	800.0	8.4	595.0	6.1	595.0	6.2
Pledged with equity interests in unlisted companies	145.0	1.5	—	—	—	—	—	—
Pledged with receivables	899.2	9.0	898.4	9.5	898.0	9.1	598.0	6.0
Pledged with debt securities	300.0	8.1	300.0	6.2	300.0	7.4	—	—
Subtotal	**2,254.2**	**27.7**	**1,998.4**	**24.1**	**1,793.0**	**22.6**	**1,193.0**	**12.2**
Collateral								
Collateralized with real estate or land	343.5	3.4	300.0	3.2	322.7	3.6	300.0	3.4
Subtotal	**343.5**	**3.4**	**300.0**	**3.2**	**322.7**	**3.6**	**300.0**	**3.4**
Guarantee								
Third-party guarantee from unlisted companies	3,778.3	37.8	3,540.6	37.4	5,306.4	45.5	5,256.3	58.3
Unlisted companies and individuals	690.0	6.9	—	—	940.0	9.4	490.0	5.0
Subtotal	**4,468.3**	**44.7**	**3,540.6**	**37.4**	**6,246.4**	**54.9**	**5,746.3**	**63.3**
Unsecured								
Others	2,042.8	20.4	4,354.3	5.3	5,487.0	13.7	7,223.1	13.8
Non-credit based SPV Investment	26,755.9	10.3	16,945.7	12.3	11,198.5	15.5	9,155.0	15.3
Subtotal	**28,798.7**	**30.7**	**21,300.0**	**17.6**	**16,685.5**	**29.2**	**16,378.1**	**29.1**
Others	**5,592.1**	**55.9**	**7,288.7**	**76.0**	**7,662.3**	**63.9**	**8,009.9**	**66.0**
Total allowance for SPV Investment	**41,456.8**	**162.4**	**34,427.7**	**158.3**	**32,709.9**	**174.2**	**31,627.3**	**174.0**

Other Financial Investments

Other financial investments consist primarily of certificates of interbank deposit. Other financial investments we hold increased significantly from RMB1,484.2 million as of December 31, 2017 to RMB7,228.0 million as of December 31, 2018, mainly because we adjusted our investment structure through certificates of interbank deposit in response to relevant regulatory policies and in consideration of yields and risks during the Track Record Period. Our other financial investments decreased significantly to RMB1,767.8 million as of December 31, 2019 and further decreased by 35.5% to RMB1,141.0 million as of March 31, 2020, mainly because we reduced investments in certificates of interbank deposit according to market conditions and our Bank's investment strategies, and allocated more resources to investment in debt securities (such as debt securities issued by corporate issuers) to seek better returns.

Investment Concentration

The table below sets forth the ten largest holdings of financial investments as of the date indicated.

	As of March 31, 2020					
Financial Investment	**Type of financial investment**	**Industry Rating/ Credit rating(1)**	**Carrying value**	**% of total financial investments**	**% of total equity**	**% of net capital base**
			(in millions of RMB, except percentage)			
Investment B . . .	Debt securities issued by policy banks	A1	4,704.8	5.0%	25.9%	19.2%
Investment A . . .	Debt securities issued by PRC Government	A1	3,622.3	3.9%	20.0%	14.8%
Investment G . . .	Debt securities issued by policy banks	A1	3,131.6	3.3%	17.2%	12.8%
Investment D . .	Debt securities issued by policy banks	A1	2,904.3	3.1%	16.0%	11.8%
Investment C . . .	Debt securities issued by policy banks	A1	2,591.7	2.8%	14.3%	10.6%
Investment F . . .	Debt securities issued by policy banks	A1	1,566.6	1.7%	8.6%	6.4%
Investment K(2) . .	SPV Investment	AA+	1,400.3	1.5%	7.7%	5.7%
Investment H . .	Debt securities issued by PRC Government	AAA	1,300.0	1.4%	7.2%	5.3%
Investment I(3) . .	SPV Investment	B	1,200.0	1.3%	6.6%	4.9%
Investment J(4) . .	SPV Investment	B	1,000.0	1.1%	5.5%	4.1%
Total			**23,421.6**	**25.1%**	**129.0%**	**95.6%**

Notes:

(1) This refers to the Industry Rating/credit rating of the company or issuer (if it is a debt securities related investment) or the credit rating of the relevant debt securities related investment.

(2) This is a SPV Investment – other investments (debt financing plan). The end borrower of this plan is a corporate company with a credit rating of AA+ as of March 20, 2020. It has a registered capital of RMB5.1 billion as of March 20, 2020 and it was established in May 2009. It mainly involved in urban infrastructure construction.

(3) This is a SPV Investment – trust plan (credit-based). For the identity and background information of the counterparty of Investment I, please refer to the "Trust plan counterparty A" under "– Financial Investments – Investment Concentration – Concentration of Investment in Credit Based Trust Plans". For the identity and background information of the end borrower of Investment I, please refer to the "Trust plan borrower A" under "– Financial Investments – Investment Concentration – Concentration of Investment in Credit Based Trust Plans".

(4) This is a SPV Investment – trust plan (non-credit based). For the identity and background information of the counterparty of Investment J, please refer to the "Trust plan counterparty M" under "– Financial Investments – Investment Concentration – Concentration of Investment in Non-Credit Based Trust Plans".

Concentration of Investment in Credit Based Trust Plans

The following table sets forth the five largest end borrowers under our credit based trust plans as of the dates indicated:

	As of December 31, 2017							
	Industry	Date of incorporation	Place of incorporation	Registered capital	Nature	Total assets[1]	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)							
Trust plan borrower A	Real estate	April 2010	Jinan City	900.0	Privately-owned	9,590.0	1,200.0	4.9%
Trust plan borrower B	Business services	March 2010	Beijing Municipality	250.0	Privately-owned	2,402.8	800.0	3.3%
Trust plan borrower C	Business services	June 2009	Weihai City	100.0	Privately-owned	1,820.6	700.0	2.8%
Trust plan borrower D	Finance	April 2003	Tianjin Municipality	8.5	Privately-owned	1,005.3	620.0	2.5%
Trust plan borrower E	Real estate	October 2004	Tianjin Municipality	72.0	Privately-owned	1,804.4	544.8	2.2%
Total							**3,864.8**	**15.7%**

	As of December 31, 2018							
	Industry	Date of incorporation	Place of incorporation	Registered capital	Nature	Total assets[1]	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)							
Trust plan borrower A	Real estate	April 2010	Jinan City	900.0	Privately-owned	7,766.5	1,200.0	6.1%
Trust plan borrower B	Business services	March 2010	Beijing Municipality	250.0	Privately-owned	3,583.9	800.0	4.0%
Trust plan borrower C	Business services	June 2009	Weihai City	100.0	Privately-owned	1,856.4	700.0	3.5%
Trust plan borrower D	Finance	April 2003	Tianjin Municipality	8.5	Privately-owned	1,026.3	620.0	3.1%
Trust plan borrower E	Real estate	October 2004	Tianjin Municipality	72.0	Privately-owned	1,849.9	544.8	2.8%
Total							**3,864.8**	**19.5%**

	As of December 31, 2019							
	Industry	Date of incorporation	Place of incorporation	Registered capital	Nature	Total assets(1)	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)							
Trust plan borrower A	Real estate	April 2010	Jinan City	957.4	Privately-owned	8,204.6	1,200.0	5.7%
Trust plan borrower D	Finance	April 2003	Tianjin Municipality	8.5	Privately-owned	1,016.4	620.0	3.0%
Trust plan borrower H	Finance	June 2006	Beijing Municipality	1,788.0	State-owned	25,199.4	601.0	2.9%
Trust plan borrower I	Real Estate	March 2010	Weihai City	122.0	State-owned	7,474.6	599.0	2.9%
Trust plan borrower J	Business services	August 2014	Weihai City	328.0	State-owned	2,918.1	599.0	2.9%
Total							**3,619.0**	**17.4%**

	As of March 31, 2020							
	Industry	Date of incorporation	Place of incorporation	Registered capital	Nature	Total assets(1)	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)							
Trust plan borrower A	Real estate	April 2010	Jinan City	957.4	Privately-owned	8,115.8	1,200.0	5.9%
Trust plan borrower D	Finance	April 2003	Tianjin Municipality	8.5	Privately-owned	1,015.0	620.0	3.1%
Trust plan borrower H	Finance	June 2006	Beijing Municipality	1,788.0	State-owned	24,875.8	600.8	3.0%
Trust plan borrower I	Real Estate	March 2010	Weihai City	122.0	State-owned	7,794.8	599.0	3.0%
Trust plan borrower J	Business services	August 2014	Weihai City	328.0	State-owned	2,865.7	599.0	3.0%
Total							**3,618.8**	**18.0%**

Note:

(1) Source: annual report or quarterly/yearly financial statements (unaudited) of each respective company.

The following table sets forth the five largest counterparties of our credit based trust plans as of the dates indicated:

	As of December 31, 2017								
	Types of company	Date of incorporation	Place of incorporation	Registered capital	Nature	Industry Rating	Total assets(1)	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)								
Trust plan counterparty A	Trust Company	July 2002	Xi'an City	1,500.0	State-owned	–	7,337.0	4,464.4	18.1%
Trust plan counterparty B	Trust Company	May 1981	Shanghai Municipality	5,000.0	State-owned	A	25,047.6	1,300.0	5.3%
Trust plan counterparty C	Trust Company	November 1984	Shenzhen	13,000.0	Privately-owned	A	138,892.7	999.1	4.1%
Trust plan counterparty D	Trust Company	June 1984	Beijing Municipality	2,200.0	State-owned	–	4,997.3	800.0	3.3%
Trust plan counterparty E	Trust Company	August 1979	Hangzhou City	5,000.0	State-owned	B	8,844.4	710.6	2.9%
Total								**8,274.1**	**33.7%**

As of December 31, 2018

	Types of company	Date of incorporation	Place of incorporation	Registered capital	Nature	Industry Rating	Total assets(1)	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)								
Trust plan counterparty A	Trust Company	July 2002	Xi'an City	1,500.0	State-owned	B	5,555.5	4,954.4	25.0%
Trust plan counterparty D	Trust Company	June 1984	Beijing Municipality	3,574.8	State-owned	–	7,446.8	1,700.0	8.6%
Trust plan counterparty C	Trust Company	November 1984	Shenzhen	13,000.0	Privately-owned	A	157,076.3	898.4	4.5%
Trust plan counterparty B	Trust Company	May 1981	Shanghai Municipality	5,000.0	State-owned	A	22,509.7	800.0	4.0%
Trust plan counterparty F	Trust Company	November 1995	Beijing Municipality	2,456.7	State-owned	B	23,050.1	518.8	2.6%
Total								**8,871.6**	**44.7%**

As of December 31, 2019

	Types of company	Date of incorporation	Place of incorporation	Registered capital	Nature	Industry Rating	Total assets(1)	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)								
Trust plan counterparty A	Trust Company	July 2002	Xi'an City	1,500.0	State-owned	B	6,379.4	6,505.0	31.1%
Trust plan counterparty G	Trust Company	January 1993	Harbin City	12,000.0	State-owned	A	27,616.1	1,423.0	6.8%
Trust plan counterparty D	Trust Company	June 1984	Beijing Municipality	3,574.8	State-owned	A	7,748.7	1,402.0	6.7%
Trust plan counterparty C	Trust Company	November 1984	Shenzhen	13,000.0	Privately-owned	B	172,813.6	1,401.0	6.7%
Trust plan counterparty B	Trust Company	May 1981	Shanghai Municipality	5,000.0	State-owned	A	23,887.1	800.0	3.8%
Total								**11,531.0**	**55.1%**

As of March 31, 2020

	Types of company	Date of incorporation	Place of incorporation	Registered capital	Nature	Industry Rating	Total assets(1)	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)								
Trust plan counterparty A	Trust Company	July 2002	Xi'an City	1,500.0	State-owned	B	N/A(2)	6,504.8	32.2%
Trust plan counterparty D	Trust Company	June 1984	Beijing Municipality	3,574.8	State-owned	A	N/A(2)	1,559.6	7.7%
Trust plan counterparty G	Trust Company	January 1993	Harbin City	12,000.0	State-owned	A	N/A(2)	1,423.0	7.0%
Trust plan counterparty C	Trust Company	November 1984	Shenzhen	13,000.0	Privately-owned	B	N/A(2)	1,401.0	6.9%
Trust plan counterparty B	Trust Company	May 1981	Shanghai Municipality	5,000.0	State-owned	A	N/A(2)	800.0	4.0%
Total								**11,688.4**	**57.8%**

Notes:

(1) Source: annual report of each respective company.

(2) There was no publicly available and reliable information as of Latest Practicable Date.

Concentration of Investment in Non-Credit Based Trust Plans

The following table sets forth the five largest counterparties of our non-credit based trust plans as of the dates indicated:

	As of December 31, 2017								
	Types of company	Date of incorporation	Place of incorporation	Registered capital	Nature	Industry Rating	Total assets[1]	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)								
Trust plan counterparty H	Trust Company	December 1999	Xi'an City	3,330.0	State-owned	B	8,492.9	2,215.0	9.0%
Trust plan counterparty I	Trust Company	July 1988	Shanghai Municipality	2,500.0	State-owned	–	10,719.0	1,716.0	7.0%
Trust plan counterparty J	Trust Company	April 2010	Chengdu City	3,500.0	Privately-owned	–	19,371.9	1,556.0	6.3%
Trust plan counterparty M	Trust Company	January 2004	Hefei City	3,000.0	State-owned	B	7,326.2	1,000.0	4.1%
Trust plan counterparty A	Trust Company	July 2002	Xi'an City	1,500.0	State-owned	–	7,337.0	953.0	3.9%
Total								**7,440.0**	**30.3%**

	As of December 31, 2018								
	Types of company	Date of incorporation	Place of incorporation	Registered capital	Nature	Industry Rating	Total assets[1]	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)								
Trust plan counterparty H	Trust Company	December 1999	Xi'an City	3,330.0	State-owned	B	8,956.0	2,230.2	11.3%
Trust plan counterparty A	Trust Company	July 2002	Xi'an City	1,500.0	State-owned	B	5,555.5	1,135.2	5.7%
Trust plan counterparty M	Trust Company	January 2004	Hefei City	3,000.0	State-owned	B	7,445.4	1,000.0	5.0%
Trust plan counterparty K	Trust Company	September 2002	Guizhou City	6,194.6	State-owned	A	21,335.9	635.8	3.2%
Trust plan counterparty D	Trust Company	June 1984	Beijing Municipality	3,574.8	State-owned	–	7,446.8	500.7	2.5%
Total								**5,501.9**	**27.7%**

	As of December 31, 2019								
	Types of company	Date of incorporation	Place of incorporation	Registered capital	Nature	Industry Rating	Total assets[1]	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)								
Trust plan counterparty A	Trust Company	July 2002	Xi'an City	1,500.0	State-owned	B	6,379.4	1,487.1	7.1%
Trust plan counterparty H	Trust Company	December 1999	Xi'an City	3,330.0	State-owned	B	10,309.9	1,415.5	6.8%
Trust plan counterparty M	Trust Company	January 2004	Hefei City	3,000.0	State-owned	B	7,530.8	1,000.0	4.8%
Trust plan counterparty D	Trust Company	June 1984	Beijing Municipality	3,574.8	State-owned	A	7,748.7	600.7	2.9%
Trust plan counterparty L	Trust Company	September 1987	Beijing Municipality	8,000.0	State-owned	A	18,413.4	354.0	1.7%
Total								**4,857.3**	**23.3%**

	As of March 31, 2020								
	Types of company	Date of incorporation	Place of incorporation	Registered capital	Nature	Industry Rating	Total assets[(1)]	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)								
Trust plan counterparty H	Trust Company	December 1999	Xi'an City	3,330.0	State-owned	B	N/A[(2)]	1,404.4	6.9%
Trust plan counterparty A	Trust Company	July 2002	Xi'an City	1,500.0	State-owned	B	N/A[(2)]	1,239.5	6.1%
Trust plan counterparty M	Trust Company	January 2004	Hefei City	3,000.0	State-owned	B	N/A[(2)]	1,000.0	4.9%
Trust plan counterparty D	Trust Company	June 1984	Beijing Municipality	3,574.8	State-owned	A	N/A[(2)]	610.2	3.0%
Trust plan counterparty L	Trust Company	September 1987	Beijing Municipality	8,000.0	State-owned	A	N/A[(2)]	358.5	1.8%
Total								**4,612.6**	**22.7%**

Notes:

(1) Source: annual report of each respective company.

(2) There was no publicly available and reliable information as of Latest Practicable Date.

Concentration of Investment in Credit Based Asset Management Plans

The following table sets forth the five largest end borrowers under our credit based asset management plans as of the dates indicated:

	As of December 31, 2017							
	Industry	Date of incorporation	Place of incorporation	Registered capital	Nature	Total assets[(1)]	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)							
Asset management plan borrower A	Business services	May 2007	Beijing Municipality	50.0	Privately-owned	15,625.8	800.0	6.1%
Asset management plan borrower B	Real estate	July 1999	Jinan City	30.0	Privately-owned	4,389.5	145.0	1.1%
Asset management plan borrower C	Media, film and television	August 2010	Suzhou City	50.0	Privately-owned	119.2	100.0	0.8%
Asset management plan borrower E	Business services	September 2012	Jining City	435.9	State-owned	2,080.3	43.5	0.3%
Total							**1,088.5**	**8.3%**

	As of December 31, 2018							
	Industry	Date of incorporation	Place of incorporation	Registered capital	Nature	Total assets(1)	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)							
Asset management plan borrower A . .	Business services	May 2007	Beijing Municipality	50.0	Privately-owned	13,627.7	800.0	11.8%
Asset management plan borrower C . .	Media, film and television	August 2010	Suzhou City	50.0	Privately-owned	109.1	100.0	1.5%
Total.							**900.0**	**13.3%**

	As of December 31, 2019							
	Industry	Date of incorporation	Place of incorporation	Registered capital	Nature	Total assets(1)	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)							
Asset management plan borrower A . .	Business services	May 2007	Beijing Municipality	50.0	Privately-owned	N/A(2)	595.0	18.3%
Asset management plan borrower C . .	Media, film and television	August 2010	Suzhou City	50.0	Privately-owned	N/A(2)	100.0	3.1%
Total.							**695.0**	**21.4%**

	As of March 31, 2020							
	Industry	Date of incorporation	Place of incorporation	Registered capital	Nature	Total assets(1)	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)							
Asset management plan borrower A.	Business services	May 2007	Beijing Municipality	50.0	Privately-owned	N/A(2)	595.0	32.1%
Total							**595.0**	**32.1%**

Notes:

(1) Source: annual report/financial statements (unaudited) of each respective company.

(2) There was no publicly available and reliable information as of Latest Practicable Date.

The following table sets forth the five largest counterparties for our credit based asset management plans as of the dates indicated:

As of December 31, 2017

	Date of incorporation	Place of incorporation	Registered capital	Nature	Regulatory/ Credit rating	Total assets[(1)]	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)							
Asset management plan counterparty A	April 2014	Shenzhen	1,000.0	State-owned	–	2,737.2	1,155.0	8.7%
Asset management plan counterparty B	January 2013	Shanghai Municipality	668.0	Privately-owned	–	N/A[(2)]	43.5	0.3%
Total							**1,198.5**	**9.0%**

As of December 31, 2018

	Date of incorporation	Place of incorporation	Registered capital	Nature	Regulatory/ Credit rating	Total assets[(1)]	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)							
Asset management plan counterparty A	April 2014	Shenzhen	1,000.0	State-owned	–	2,308.6	900.0	13.3%
Total							**900.0**	**13.3%**

As of December 31, 2019

	Date of incorporation	Place of incorporation	Registered capital	Nature	Regulatory/ Credit rating	Total assets[(1)]	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)							
Asset management plan counterparty A	April 2014	Shenzhen	1,000.0	State-owned	–	1,941.3	695.0	21.4%
Total							**695.0**	**21.4%**

As of March 31, 2020

	Date of incorporation	Place of incorporation	Registered capital	Nature	Regulatory/ Credit rating	Total assets[(1)]	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)							
Asset management plan counterparty A	April 2014	Shenzhen	1,000.0	State-owned	–	N/A[(2)]	595.0	32.1%
Total							**595.0**	**32.1%**

Notes:

(1) Source: annual report of each respective company.

(2) There was no publicly available and reliable information as of Latest Practicable Date.

Concentration of Investment in Non-Credit Based Asset Management Plans

The following table sets forth the five largest counterparties of our non-credit based asset management plans as of the dates indicated:

	As of December 31, 2017								
	Type of Company	Date of incorporation	Place of incorporation	Registered capital	Nature	Regulatory/ Credit rating	Total assets[1]	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)								
Asset management plan counterparty C	Fund company	January 2016	Guangzhou	200.0	State-owned	–	N/A[2]	2,069.6	15.7%
Asset management plan counterparty D	City Commercial Bank	November 2011	Lanzhou City	7,526.0	Listed company	AA+	271,147.6	1,998.1	15.1%
Asset management plan counterparty E	Securities brokerage	June 1990	Chongqing City	5,645.1	Listed company	–	63,694.3	1,548.8	11.7%
Asset management plan counterparty F	Securities brokerage	September 2007	Beijing Municipality	5,142.5	State-owned	AAA	120,860.9	1,523.6	11.5%
Asset management plan counterparty A	Asset management company	April 2014	Shenzhen	1,000.0	State-owned	–	2,737.2	1,451.5	11.0%
Total								**8,591.6**	**65.0%**

	As of December 31, 2018								
	Type of Company	Date of incorporation	Place of incorporation	Registered capital	Nature	Regulatory/ Credit rating	Total assets[1]	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)								
Asset management plan counterparty F	Securities brokerage	September 2007	Beijing Municipality	5,840.7	State-owned	AAA	79,618.4	1,511.2	22.3%
Asset management plan counterparty E	Securities brokerage	June 1990	Chongqing City	5,645.1	Listed company	–	63,695.2	1,233.1	18.2%
Asset management plan counterparty G	Fund company	September 2013	Beijing Municipality	300.0	State-owned	–	552.2	1,033.1	15.2%
Asset management plan counterparty H	Asset management company	February 2005	Beijing Municipality	1,500.0	State-owned	–	12,821.5	789.6	11.6%
Asset management plan counterparty A	Asset management company	April 2014	Shenzhen	1,000.0	State-owned	–	2,308.6	679.2	10.0%
Total								**5,246.2**	**77.3%**

	As of December 31, 2019								
	Type of Company	Date of incorporation	Place of incorporation	Registered capital	Nature	Regulatory/ Credit rating	Total assets[(1)]	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)								
Asset management plan counterparty F	Securities brokerage	September 2007	Beijing Municipality	5,840.7	State-owned	AAA	65,773.9	1,194.3	36.8%
Asset management plan counterparty E	Securities brokerage	June 1990	Chongqing City	5,645.1	Listed company	–	65,851.0	908.8	28.0%
Asset management plan counterparty G	Fund company	September 2013	Beijing Municipality	300.0	State-owned	–	626.4	282.9	8.7%
Asset management plan counterparty I	Securities brokerage	August 2006	Shenzhen	7,000.0	State-owned	AAA	160,866.8	107.7	3.3%
Asset management plan counterparty J	Securities brokerage	July 1995	Beijing Municipality	4,368.7	Listed company	AAA	344,971.2	51.1	1.6%
Total								**2,544.8**	**78.4%**

	As of March 31, 2020								
	Type of Company	Date of incorporation	Place of incorporation	Registered capital	Nature	Regulatory/ Credit rating	Total assets[(1)]	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)								
Asset management plan counterparty E	Securities brokerage	June 1990	Chongqing City	5,645.1	Listed company	–	N/A[(2)]	493.0	26.7%
Asset management plan counterparty F	Securities brokerage	September 2007	Beijing Municipality	5,840.7	State-owned	AAA	N/A[(2)]	476.4	25.7%
Asset management plan counterparty G	Fund company	September 2013	Beijing Municipality	300.0	State-owned	–	N/A[(2)]	282.2	15.2%
Asset management plan counterparty A	Asset management company	April 2014	Shenzhen	1,000.0	State-owned	–	N/A[(2)]	6.1	0.3%
Total								**1,257.7**	**67.9%**

Notes:

(1) Source: annual report of each respective company.

(2) There was no publicly available and reliable information as of Latest Practicable Date.

Concentration of Investment in Wealth Management Products Issued by Other Financial Institutions

The following table sets forth the five largest counterparties for our investment in wealth management products issued by other financial institutions as of the dates indicated:

As of December 31, 2017

	Type of financial institution	Date of incorporation	Place of incorporation	Registered capital	Nature	Regulatory/ Credit rating	Total assets(1)	Amount	% of investment in wealth management products(2)
				(in millions of RMB, except percentages)					
Bank A	City commercial bank	February 1998	Nanchang City	4,678.8	Listed company	AAA	370,005.3	511.1	100.0%
Total								**511.1**	**100.0%**

As of December 31, 2018

	Type of financial institution	Date of incorporation	Place of incorporation	Registered capital	Nature	Regulatory/ Credit rating	Total assets(1)	Amount	% of investment in wealth management products(2)
				(in millions of RMB, except percentages)					
Bank A	City commercial bank	February 1998	Nanchang City	4,678.8	Listed company	AAA	419,064.3	511.3	45.9%
Bank B	City commercial bank	April 1993	Ningbo City	5,220.0	State-owned	AA	82,924.9	603.8	54.1%
Total								**1,115.1**	**100.0%**

As of December 31, 2019

	Type of financial institution	Date of incorporation	Place of incorporation	Registered capital	Nature	Regulatory/ Credit rating	Total assets(1)	Amount	% of investment in wealth management products(2)
				(in millions of RMB, except percentages)					
Bank C	Rural commercial bank	June 2008	Chongqing City	10,000.0	Listed Company	AAA	1,029,790.1	517.8	50.8%
Bank D	Nationwide joint-stock commercial bank	November 1987	Jinan City	111,209.6	Joint-stock company	AAA	1,028,768.0	501.7	49.2%
Total								**1,019.5**	**100.0%**

	As of March 31, 2020								
	Type of financial institution	Date of incorporation	Place of incorporation	Registered capital	Nature	Regulatory/ Credit rating	Total assets(1)	Amount	% of investment in wealth management products(2)
	(in millions of RMB, except percentages)								
Bank D	Nationwide joint-stock commercial bank	November 1987	Jinan City	111,209.6	Joint-stock company	AAA	1,006,367.4	506.7	100.0%
Total								**506.7**	**100.0%**

Notes:

(1) Source: quarterly or annual report of each respective company.

(2) Referred to wealth management products issued by other financial institutions.

Concentration of Investment in Funds

The following table sets forth the five largest counterparties for our investment in funds as of the dates indicated:

	As of December 31, 2017							
	Type of company	Date of incorporation	Place of incorporation	Registered capital	Nature	Total assets(1)	Amount	% of investment in funds
	(in millions of RMB, except percentages)							
Fund investment counterparty A	Fund company	March 2013	Beijing Municipality	300.0	Privately-owned	1,099.7	1,036.3	38.5%
Fund investment counterparty B	Fund company	January 2011	Shenzhen	300.0	Privately-owned	N/A(2)	1,031.0	38.4%
Fund investment counterparty C	Fund company	January 2016	Guangzhou	200.0	State-owned	N/A(2)	413.0	15.4%
Fund investment counterparty D	Fund company	July 1998	Shenzhen	250.0	State-owned	5,556.6	207.0	7.7%
Total							**2,687.3**	**100.0%**

	As of December 31, 2018							
	Type of company	Date of incorporation	Place of incorporation	Registered capital	Nature	Total assets(1)	Amount	% of investment in funds
	(in millions of RMB, except percentages)							
Fund investment counterparty A	Fund company	March 2013	Beijing Municipality	465.0	Privately-owned	1,460.2	769.7	100.0%
Total							**769.7**	**100.0%**

	As of December 31, 2019							
	Type of company	Date of incorporation	Place of incorporation	Registered capital	Nature	Total assets[(1)]	Amount	% of investment in funds
	(in millions of RMB, except percentages)							
Fund investment counterparty A	Fund company	March 2013	Beijing Municipality	465.0	Privately-owned	1,765.5	699.9	100.0%
Total							**699.9**	**100.0%**

	As of March 31, 2020							
	Type of company	Date of incorporation	Place of incorporation	Registered capital	Nature	Total assets[(1)]	Amount	% of investment in funds
	(in millions of RMB, except percentages)							
Fund investment counterparty A	Fund company	March 2013	Beijing Municipality	465.0	Privately-owned	N/A[(2)]	710.1	100.0%
Total							**710.1**	**100.0%**

Notes:

(1) Source: annual report of each respective company.

(2) There was no publicly available and reliable information as of Latest Practicable Date.

Other Components of Our Assets

Other components of our assets consist primarily of (i) cash and deposits with the central bank, (ii) deposits with banks and other financial institutions, (iii) placements with banks and other financial institutions, (iv) derivative financial assets, (v) financial assets held under resale agreements, (vi) property and equipment, (vii) right-of-use assets, (viii) deferred tax assets and (ix) other assets.

Cash and deposits with the central bank consist primarily of cash, statutory deposit reserves and surplus deposit reserves. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain with the PBoC. The minimum level is determined as a percentage of our deposits from customers. Surplus deposit reserves are deposits with the PBoC in excess of statutory deposit reserves which we maintain for clearing purposes. As of December 31, 2017 and 2018, our cash and deposits with the central bank amounted to RMB19,149.5 million and RMB18,464.8 million, respectively. The slight decrease in our cash and deposits with the central bank was primarily because the PBoC lowered the statutory deposit reserve ratio. Our cash and deposits with the central bank amounted to RMB21,203.8 million as of December 31, 2019, which slightly increased compared to the amount as of December 31, 2018, primarily due to the increase in our statutory deposit reserve, which was in line with the increase in our deposits from customers. Our cash and deposits with central bank decreased by 9.2% from RMB21,203.8 million as of December 31, 2019 to RMB19,256.1 million as of March 31, 2020, primarily due to the PBoC lowered the deposit reserve ratio by 0.5% in January 2020.

Deposits with banks and other financial institutions consist primarily of our deposits placed with other banks and financial institutions and deposits with other financial institutions for settlement and clearance purposes. Our deposits with banks and other financial institutions decreased from RMB1,129.5 million as of December 31, 2017 to RMB1,054.9 million as of December 31, 2018, primarily due to the slight decrease in our deposits with banks and other financial institutions in 2018 as compared with 2017, arising from our adjusting investment portfolio according to our investment strategy and risk management policy. As of December 31, 2019, our deposits with banks and other financial institutions increased to RMB2,026.9 million, primarily due to increased in foreign currency-denominated deposits we received from our customers. Our deposits with banks and other financial institutions decreased by 47.5% from RMB2,026.9 million as of December 31, 2019 to RMB1,064.9 million as of March 31, 2020, primarily because we increased the foreign currency-denominated placements with commercial banks and other financial institutions during the first quarter of 2020 which resulted in a decrease in foreign currency-denominated deposits with banks and other financial institutions.

The following table sets forth the breakdown of our deposits with banks and other financial institutions by counterparties as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Large Commercial Banks	92.9	8.2%	72.0	6.9%	1,352.2[2]	66.7%	308.1	28.9%
Nationwide Joint-stock commercial banks	25.7	2.3%	78.5	7.6%	44.2	2.2%	72.4	6.8%
City commercial banks	122.6	10.9%	123.2	11.9%	121.0	6.0%	122.8	11.5%
Private-funded banks	500.0	44.3%	500.0	48.3%	0.0	0.0%	0.0	0.0%
Rural commercial banks	110.1	9.7%	10.3	1.0%	8.4	0.4%	9.8	0.9%
Others[1]	278.2	24.6%	252.2	24.3%	501.0	24.7%	551.7	51.9%
Gross deposits with banks and other financial institutions	**1,129.5**	**100.0%**	**1,036.2**	**100.0%**	**2,026.8**	**100.0%**	**1,064.8**	**100.0%**
Interest accrued	N/A		18.7		0.1		0.1	
Less: Allowance for impairment losses	–		0.00		–		–	
Net deposits with banks and other financial institutions	**1,129.5**		**1,054.9**		**2,026.9**		**1,064.9**	

Notes:

(1) This included policy banks, foreign-funded banks and other banks.

(2) The increase in our deposits with Large Commercial Banks was primarily because of the increase in foreign currency-denominated deposits we received from our customers in 2019.

During our course of business operation, we may lend funds to banks and other financial institutions through the lending market taking into account various factors including interbank interest rates, market demand and our liquidity status. As of December 31, 2017, 2018, 2019 and March 31, 2020, our placements with banks and other financial institutions were RMB1,202.3 million, RMB1,271.9 million, RMB507.2 million and RMB568.0 million respectively.

The following table sets for the breakdown of our placements with banks and other financial institutions by counterparties as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Large Commercial Banks	–	–	–	–	–	–	212.5	37.5%
Nationwide Joint-stock Commercial Banks	–	–	233.3	18.5%	–	–	–	–
City commercial banks	1,202.3	100.0%	1,030.9	81.5%	500.0	100.0%	354.3	62.5%
Gross placements with banks and other financial institutions	**1,202.3**	**100.0%**	**1,264.2**	**100.0%**	**500.0**	**100.0%**	**566.8**	**100.0%**
Interest accrued	–		7.7		7.2		1.2	
Less: Allowance for impairment losses	–		0.0		0.0		0.0	
Net placements with banks and other financial institutions	**1,202.3**		**1,271.9**		**507.2**		**568.0**	

Financial assets held under resale agreements consist primarily of bills held under resale agreements and debt securities held under resale agreements. Our financial assets held under resale agreements decreased significantly by 90.8% from RMB15,058.1 million as of December 31, 2017 to RMB1,392.3 million as of December 31, 2018, mainly reflecting that we adjusted the scale of financial assets held under resale agreements according to liquidity condition. As of December 31, 2019, the financial assets under resale agreements increased by 286.9% to RMB5,386.6 million as of December 31, 2019, primarily because we increased the financial assets under resale agreements based on our liquidity management needs. Our financial assets held under resale agreements amounted to nil as of March 31, 2020, primarily because we allocate more resources into loans to customers and financial investment during the first quarter of 2020, and hence the financial assets under resale agreements held by us decreased to nil.

Our property and equipment decreased by 3.6% from RMB751.0 million as of December 31, 2017 to RMB723.8 million as of December 31, 2018, and continuously decreased by 2.5% to RMB705.5 million as of December 31, 2019. Our property and equipment amounted to

RMB693.4 million as of March 31, 2020, representing a slight 1.7% decrease as compared to our property and equipment as of December 31, 2019. The continued decrease, mainly reflecting the decrease in carrying amount of our property and equipment arising from its normal depreciation.

Our right-of-use assets increased by RMB476.9 million as of December 31, 2019 and further increased by 4.3% to RMB497.6 million as of March 31, 2020, primarily because we recognized right-of-use assets in accordance with IFRS 16 since 2019.

Our deferred tax assets increased by 122.0% from RMB266.6 million as of December 31, 2017 to RMB591.9 million as of December 31, 2018, primarily due to an increase in provisions for deferred income tax. We have adopted IFRS 9 since January 1, 2018, according to which, our deferred tax assets as of January 1, 2018 amounted to RMB346.3 million, representing an increase from the amount of RMB266.6 million as of December 31, 2017 under IAS 39. This increase was primarily due to (i) an increase in our allowance for impairment losses as a result of our application of the expected credit loss model under IFRS 9; and (ii) a decrease in the changes of fair value of underlying assets, which was caused by reclassification of financial investments due to changes of accounting standards. For details, please see Note 23 of the Accountants' Report in Appendix I to this prospectus. As of December 31, 2019, our deferred tax assets increased to RMB957.8 million from RMB591.9 million as of December 31, 2018 and further increased by 11.5% to RMB1,068.2 million as of March 31, 2020, primarily caused by an increase in our allowance for impairment losses as a result of increased loans to customers.

Our other assets consist primarily of interest receivables, prepayments for acquisition of property and equipment, finance lease receivables and other receivables. Our other assets increased by 17.2% from RMB10,828.6 million as of December 31, 2017 to RMB12,694.3 million as of December 31, 2018, primarily due to our newly added finance lease business. As of December 31, 2019, our other assets increased by 11.3% to RMB14,130.8 million and further increased by 13.5% to RMB16,031.7 million as of March 31, 2020, primarily due to the further increase of finance lease business.

LIABILITIES AND SOURCES OF FUNDS

Our total liabilities decreased by 2.1% from RMB193,426.8 million as of December 31, 2017 to RMB189,314.4 million as of December 31, 2018, primarily because we optimized our liability structure and reduced corporate savings with higher costs moderately in accordance with our liquidity management and risk management policies. As of December 31, 2019, our total liabilities increased by 9.2% to RMB206,712.0 million and further increased by 5.0% to RMB217,135.7 million as of March 31, 2020, primarily due to the increase in our deposits from customers.

The following table sets forth the components of our total liabilities as of the dates indicated:

	As of December 31,						As of March 31,	
	2017(1)		2018(2)		2019(2)		2020(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Deposits from customers	120,096.0	62.1%	117,469.7	62.1%	144,234.0	69.8%	156,635.1	72.1%
Financial assets sold under repurchase agreements	22,020.1	11.4%	5,762.5	3.0%	9,945.3	4.8%	5,794.8	2.7%
Deposits from banks and other financial institutions	2,633.0	1.4%	7,431.0	3.9%	5,002.1	2.4%	4,864.3	2.2%
Placements from banks and other financial institutions	6,686.0	3.5%	10,461.5	5.5%	10,429.5	5.0%	12,008.9	5.5%
Debt securities issued	33,412.8	17.3%	42,942.5	22.7%	29,624.8	14.3%	28,818.2	13.3%
Borrowing from the central bank	3,166.4	1.6%	3,648.4	1.9%	4,730.9	2.3%	5,308.3	2.4%
Income tax payable	85.1	0.0%	164.0	0.1%	379.0	0.2%	467.2	0.2%
Deferred income tax liabilities	—	—	—	—	5.2	0.0%	70.5	0.0%
Lease liabilities	—	—	—	—	448.7	0.2%	453.1	0.2%
Other liabilities(3)	5,327.4	2.7%	1,434.8	0.8%	1,912.5	1.0%	2,715.3	1.4%
Total liabilities	193,426.8	100.0%	189,314.4	100.0%	206,712.0	100.0%	217,135.7	100.0%

Notes:

(1) IAS 39 was adopted prior to January 1, 2018.

(2) IFRS 9 was adopted from January 1, 2018 onwards.

(3) Other liabilities consisted primarily of interests payable, payment and collection clearance accounts, accrued staff costs and dividend payable.

Deposits from Customers

Deposits from customers have historically been our primary source of funding, representing 62.1%, 62.1%, 69.8% and 72.1% of our total liabilities as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. We provide demand and time deposit products to corporate and retail banking customers. The following table sets forth our deposits from customers by product type as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate deposits								
Demand	43,864.9	36.5%	38,738.6	33.4%	40,815.1	28.7%	44,824.6	28.9%
Time	37,154.5	30.9%	32,258.6	27.9%	43,624.8	30.7%	47,454.1	30.6%
Subtotal	81,019.4	67.4%	70,997.2	61.3%	84,439.9	59.4%	92,278.7	59.5%
Personal deposits								
Demand	6,081.6	5.1%	7,041.2	6.1%	7,808.4	5.5%	7,577.3	4.9%
Time	32,790.8	27.3%	37,642.4	32.5%	49,891.5	35.1%	54,934.8	35.5%
Subtotal	38,872.4	32.4%	44,683.6	38.6%	57,699.9	40.6%	62,512.1	40.4%
Inward and outward remittances	204.2	0.2%	103.7	0.1%	61.6	0.0%	83.8	0.1%
Total	**120,096.0**	**100.0%**	**115,784.5**	**100.0%**	**142,201.4**	**100.0%**	**154,874.6**	**100.0%**
Interests accrued[2]	N/A		1,685.2		2,032.6		1,760.5	
Total deposits from customers	**120,096.0**	**100.0%**	**117,469.7**	**100.0%**	**144,234.0**	**100.0%**	**156,635.1**	**100.0%**

Notes:

(1) Referred to the funds deposited with us by customers as security in order to conduct difference business.

(2) Pursuant to the relevant regulatory policy issued by the MOF in December 2018, the interest accrued on financial instruments measured based on the effective interest rate method should be included in the book balance of relevant financial instruments from January 1, 2018 onwards.

Our total deposits from customers (excluding interest accrued) decreased by 3.6% from RMB120,096.0 million as of December 31, 2017 to RMB115,784.5 million as of December 31, 2018, primarily because we optimized our liability structure and reduced higher average costs of corporate savings according to our liquidity management and risk management policies. Our total deposits from customers increased by 22.8% to RMB142,201.4 million as of December 31, 2019 and further increased by 8.9% to RMB154,874.6 million as of March 31, 2020, mainly due to the increase in our corporate deposits and personal deposits. For ease of comparing and analyzing the changes of deposits during the Track Record Period, except as otherwise indicated, the following discussions are based on our deposits from customers before taking into account interest accrued.

Our corporate deposits decreased by 12.4% from RMB81,019.4 million as of December 31, 2017 to RMB70,997.2 million as of December 31, 2018, primarily because we optimized our liability structure and reduced negotiated deposits according to our liquidity management and risk management policies. Our corporate deposits increased by 18.9% to RMB84,439.9 million as of December 31, 2019 and further increased by 9.3% to RMB92,278.7 million as of March 31, 2020, primarily because (i) we kept developing corporate deposit business by enriching our deposit products, improving customers' user experience and enhancing marketing efforts; and (ii) we obtained the qualifications for trading derivatives in 2019 and started to drive structured deposits business forward.

Our personal deposits increased by 14.9% from RMB38,872.4 million as of December 31, 2017 to RMB44,683.6 million as of December 31, 2018, and further increased by 29.1% to RMB57,699.9 million as of December 31, 2019. Our personal deposits amounted to RMB62,512.1 million as of March 31, 2020, representing an increase of 8.3% as compared to our personal deposits as of December 31, 2019. The continued increase primarily because we drove our personal deposits business forward through launching new products and enhancing marketing efforts.

Please see the section headed "Risk Factors — Risks Relating to Our Business — If we fail to maintain the growth rate of our deposits from customers or our deposits from customers decrease substantially, our liquidity, financial conditions and results of operations could be materially and adversely affected" in this prospectus.

Distribution of Deposits from Customers by Geographical Region

We classify the geographic distribution of deposits based on the location of the branch or sub-branch taking the deposits. The following table sets forth the distribution of our deposits from customers by geographic region as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Weihai City	53,412.9	44.6%	58,703.9	50.7%	71,773.9	50.5%	71,990.9	46.5%
Outside Weihai City	66,683.1	55.4%	57,080.6	49.3%	70,427.5	49.5%	82,883.7	53.5%
Total deposits from customers	**120,096.0**	**100.0%**	**115,784.5**	**100.0%**	**142,201.4**	**100.0%**	**154,874.6**	**100.0%**

Distribution of Deposits from Customers by Currency

Substantially all of our deposits from customers are Renminbi-denominated deposits. The following table sets forth the distribution of our deposits from customers by currency as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Distribution by currency								
RMB-denominated deposits.	118,646.3	98.8%	114,704.6	99.1%	140,427.5	98.8%	153,528.5	99.1%
USD-denominated deposits .	1,446.6	1.2%	1,079.1	0.9%	1,772.2	1.2%	1,343.2	0.9%
Other foreign currency-denominated deposits . . .	3.2	0.0%	0.7	0.0%	1.7	0.0%	2.9	0.0%
Total deposits from customers	**120,096.1**	**100.0%**	**115,784.4**	**100.0%**	**142,201.4**	**100.0%**	**154,874.6**	**100.0%**

Distribution of Deposits from Customers by Remaining Maturity

The following table sets forth the distribution of our deposits from customers by remaining maturity as of the dates indicated:

	As of March 31, 2020													
	Repayable on demand		Due within 1 month		Due over 1 month to 3 months		Due over 3 months up to 12 months		Due over 1 year up to 5 years		Due in more than 5 years		Total	
	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Total	% of total deposits
	(in millions of RMB, except percentages)													
Corporate deposits	44,824.6	28.9%	6,899.6	4.5%	5,698.8	3.7%	22,184.5	14.3%	12,654.3	8.1%	16.9	0.0%	92,278.7	59.5%
Personal deposits.	7,577.3	4.9%	1,709.3	1.1%	2,152.5	1.4%	9,647.2	6.2%	41,101.0	26.6%	324.8	0.2%	62,512.1	40.4%
Others[(1)].	83.8	0.1%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	83.8	0.1%
Total deposits from customers	**52,485.7**	**33.9%**	**8,608.9**	**5.6%**	**7,851.3**	**5.1%**	**31,831.7**	**20.5%**	**53,755.3**	**34.7%**	**341.7**	**0.2%**	**154,874.6**	**100.0%**

Note:

(1) Consisted of fiscal deposits, inward and outward remittances.

Distribution of Corporate Deposits by Size

The following table sets forth the distribution of our corporate deposits in terms of total balance of deposits from a single corporate banking customer, by size of the deposits as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
RMB500 million or more	29,669.0	36.6%	18,463.4	26.0%	27,100.5	32.1%	26,565.4	28.8%
RMB100 million up to less than RMB500 million	20,267.7	25.0%	21,811.4	30.7%	24,843.3	29.3%	34,965.3	37.9%
RMB50 million up to less than RMB100 million	8,412.6	10.4%	8,917.8	12.6%	10,561.8	12.5%	10,262.6	11.1%
RMB10 million up to less than 50 million	16,213.6	20.0%	15,374.1	21.7%	15,079.9	17.9%	14,041.2	15.2%
RMB1 million up to less than RMB10 million	5,263.7	6.5%	5,059.4	7.1%	5,193.9	6.2%	4,841.5	5.3%
Less than RMB1 million	1,192.8	1.5%	1,371.1	1.9%	1,660.5	2.0%	1,602.7	1.7%
Total corporate deposits	**81,019.4**	**100.0%**	**70,997.2**	**100.0%**	**84,439.9**	**100.0%**	**92,278.7**	**100.0%**

Distribution of Personal Deposits by Size

The following table sets forth the distribution of our personal deposits, in terms of total balance of deposits from a single retail banking customer, by size of the deposits as of the dates indicated:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
RMB5.0 million or more	2,390.9	6.2%	2,141.4	4.8%	2,169.4	3.8%	2,315.9	3.7%
RMB1.0 million up to less than RMB5.0 million	3,148.9	8.1%	3,522.8	7.9%	4,224.6	7.3%	4,325.6	6.9%
RMB0.5 million up to less than RMB1.0 million	2,219.6	5.7%	2,977.3	6.7%	4,127.0	7.2%	4,447.5	7.1%
RMB200,000 up to less than RMB500,000	5,392.2	13.8%	8,179.0	18.2%	13,325.5	23.0%	15,168.2	24.3%
RMB150,000 up to less than RMB200,000	2,749.6	7.1%	5,001.1	11.1%	8,978.1	15.6%	10,437.3	16.7%
RMB100,000 up to less than RMB150,000	2,396.8	6.2%	2,456.4	5.5%	2,595.6	4.5%	2,791.3	4.5%
RMB50,000 up to less than RMB100,000	6,523.9	16.8%	6,565.6	14.7%	7,339.9	12.7%	7,769.5	12.4%
RMB10,000 up to less than RMB50,000	12,835.7	33.0%	12,602.1	28.1%	13,660.4	23.6%	12,978.6	20.8%
Less than RMB10,000	1,215.0	3.1%	1,238.0	3.0%	1,279.4	2.3%	2,278.2	3.6%
Total personal deposits	**38,872.6**	**100.0%**	**44,683.7**	**100.0%**	**57,699.9**	**100.0%**	**62,512.1**	**100.0%**

Other Components of Our Liabilities

Other components of our liabilities consisted primarily of (i) financial assets sold under repurchase agreements, (ii) deposits from banks and other financial institutions, (iii) placements from banks and other financial institutions, (iv) debt securities issued, (v) borrowing from the central bank, (vi) income tax payable and (vii) other liabilities.

Our financial assets sold under repurchase agreements decreased significantly from RMB22,020.1 million as of December 31, 2017 to RMB5,762.5 million as of December 31, 2018, primarily due to our adjustment of the scale of repurchase transaction based on liquidity status. Our financial assets sold under repurchase agreements increased by 72.6% to RMB9,945.3 million as of December 31, 2019, primarily because we increased the financial assets sold under repurchase agreements for raising funds in 2019 based on our liquidity needs. Our financial assets sold under repurchase agreements decreased by 41.7% from RMB9,945.3 million as of December 31, 2019 to RMB5,794.8 million as of March 31, 2020, primarily because we adjusted the scale of our financial assets sold under repurchase agreements in accordance with our liquidity needs based on our liquidity management.

Our deposits from banks and other financial institutions increased by 182.2% from RMB2,633.0 million as of December 31, 2017 to RMB7,431.0 million as of December 31, 2018, primarily due to our increase in capital need along with the growth of our interbank business. As of December 31, 2019, our deposits from banks and other financial institutions decreased by 32.7% to RMB5,002.1 million as of December 31, 2019 and further decreased slightly by 2.8% to RMB4,864.3 million as of March 31, 2020, mainly due to the increase in deposits from our banking customers and at the same time increased our source of funding. Therefore, we reduced the deposits from banks and other financial institutions.

Our placements from banks and other financial institutions increased from RMB6,686.0 million as of December 31, 2017 to RMB10,461.5 million as of December 31, 2018, primarily due to our liquidity management and business development needs. Our placements from banks and other financial institutions decreased to RMB10,429.5 million as of December 31, 2019, which remained relatively stable as compared with December 31, 2018. Our placements from banks and other financial institutions increased by 15.1% from RMB10,429.5 as of December 31, 2019 to RMB12,008.9 million as of March 31, 2020, primarily due to an increase in placements from banks and other financial institutions resulting from the increased size of our financial leasing business.

Debt securities issued consisted primarily of certificates of interbank deposit, financial bonds and tier-two capital bonds that we issued. For details of our debt securities issued, please see "Financial Information — Capital Resources — Debt — Debt Securities Issued". Our debt securities issued amounted to RMB33,412.8 million, RMB42,942.5 million, RMB29,624.8 million and RMB28,818.2 million as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively.

Our borrowing from the central bank increased from RMB3,166.4 million as of December 31, 2017 to RMB3,648.4 million as of December 31, 2018, and further increased to RMB4,730.9 million as of December 31, 2019. Our borrowing from central bank amounted to RMB5,308.3 million as of March 31, 2020, representing an increase of 12.2% as compared to our borrowing from central bank as of December 31, 2019. The continued increase primarily because we adhered to relevant government policy and increased credit support to micro and small enterprises and private enterprises to better serve real economy, and at the same time, we leveraged the PBoC's policies such as standing credit facility, relending and rediscount to support the development of micro and small enterprises.

Our income tax payable increased significantly from RMB85.1 million as of December 31, 2017 to RMB164.0 million as of December 31, 2018, and further increased to RMB379.0 million as of December 31, 2019 and continuously increased to RMB467.2 million as of March 31, 2020, primarily due to the increase in tax payable calculated based on taxable profit at the end of period.

Our lease liabilities increased by RMB448.7 million as of December 31, 2019 and further increased slightly by 1.0% to RMB453.1 million as of March 31, 2020, primarily because we recognize lease liabilities in accordance with IFRS 16 adopted since January 1, 2019.

Our other liabilities consisted primarily of interests payable, payment and collection clearance accounts, accrued staff cost and dividends payable. Our other liabilities decreased by 73.1% from RMB5,327.4 million as of December 31, 2017 to RMB1,434.8 million as of December 31, 2018, primarily due to the decrease in interest receivables, which is because pursuant to the Notice of Issuing the Amended Formats of Financial Statements of Financial Enterprises for 2018 (《關於修訂印發2018年度金融企業財務報表格式的通知》) issued by the MOF in December 2018, certain interest accrued on financial liabilities will be adjusted as being included in the book balance. As of December 31, 2019, our other liabilities increased to RMB1,912.5 million and further increased by 42.0% to RMB2,715.3 million as of March 31, 2020, mainly attributable to an increase in outstanding payables and dividends payable at the end of 2019 and the end of March 2020. The interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments since January 1, 2018.

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.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements due to a number of factors, including those set forth in "Forward-Looking Statements" and "Risk Factors".

OVERVIEW

We are the only city commercial bank with outlets that cover all prefecture-level cities in Shandong Province, which is the third largest province in the PRC in terms of GDP. Adhering to our regional positioning of "Based in Shandong, Refined Efforts, Characteristic Development" ("立足山東，精耕細作，特色發展"), our overall business has sustained a steady and sound development in recent years. We ranked 80th among the "Top 100 PRC Banks" in terms of core tier-one capital as of December 31, 2018 by the CBA, moving up 15 places compared with our ranking in terms of core tier-one capital as of December 31, 2016. In addition, we were rated as the "National Top 10 City Commercial Bank" for four consecutive years from 2016 to 2019 by Financial News (金融時報), a Chinese magazine, in recognition of our business performance and management capabilities. As of December 31, 2019, we ranked third among all city commercial banks headquartered in Shandong Province in terms of total assets, total deposits from customers and total loans to customers.

During the Track Record Period, our total assets increased by 9.9% from RMB204,497.9 million as of December 31, 2017 to RMB224,635.5 million as of December 31, 2019 and further increased by 4.7% to RMB235,290.2 million as of March 31, 2020. As of March 31, 2020, our deposits from customers and net loans and advances to customers amounted to RMB156,635.1 million and RMB101,205.7 million, respectively. Our net profit amounted to RMB1,602.8 million, RMB1,017.3 million, RMB1,523.7 million, RMB376.1 million and RMB391.8 million for the years ended December 31, 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, respectively. Since our establishment, while we focus on achieving growth on our business, we also maintain prudent risk management and internal control with an emphasis on maintaining sound asset quality. As of December 31, 2017, 2018, 2019 and March 31, 2020, our NPL ratios were 1.47%, 1.82%, 1.80% and 1.80%, respectively.

GENERAL FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Our results of operations and financial condition have been, and will be, affected by various factors including, among others, certain general factors set out below.

Economic Conditions of the PRC and Shandong Province

As a city commercial bank headquartered in Weihai with business penetration into Shandong Province, our financial conditions and results of operations are affected by the economic conditions of the PRC, in particular, Shandong Province, and the macroeconomic policies implemented by PRC Government.

From 2014 to 2019, according to the NBS, the PRC's GDP grew at a CAGR of 9.0% from RMB64.4 trillion in 2014 to RMB99.1 trillion in 2019. The PRC's economic growth has resulted in a substantial increase in corporate financing activities and individual wealth, which has in turn contributed to the rapid growth of the corporate and retail banking business of PRC city commercial banks. For example, according to the PBoC, from 2014 to 2019, total RMB-denominated loans and RMB-denominated deposits of the PRC financial institutions grew at a CAGR of 10.1% and 19.0%, respectively. According to the CBIRC, total assets of PRC commercial banks in the banking industry have reached RMB290.0 trillion as of December 31, 2019, representing a CAGR of 11.0% from 2014 to 2019.

Capitalizing on continued industry consolidation and improvement of market conditions encouraged by various favorable policies promulgated by PRC Government, Shandong Province has taken proactive measures to promote economic structural transformation, resulting in strong economic development in recent years. These policies have promoted and are expected to further ensure improvement and sustainable development of Shandong Province's economy. According to the NBS, the GDP for Shandong Province amounted to RMB7,106.8 billion in 2019. For details, please see "Industry Overview — National and Regional Economy — Shandong Province's Economy".

After three decades of rapid development, PRC's economy has entered a "new normal" stage, where the economy has transitioned to a stage targeting sustainable growth, emphasizing efficiency and quality, rather than merely quick expansion. The slowdown of growth in the overall economy and certain industries in the PRC may affect the results of operations and financial condition of PRC city commercial banks.

Interest Rates

Our operating income depends substantially on our net interest income. For the years ended December 31, 2017, 2018, 2019 and three months ended March 31, 2019 and 2020, our net interest income accounted for 93.3%, 49.6%, 66.8%, 60.1% and 63.6% of our total operating income, respectively. Net interest income is affected by interest rates and the average balances of our interest-earning assets and interest-bearing liabilities. Interest rates applicable to us are affected by many factors that are beyond our control, such as the benchmark interest rates set by the PBoC, domestic and international economic and political conditions and competition in the PRC banking industry.

In the PRC, interest rates on RMB-denominated loans and deposits are set by financial institutions with reference to the benchmark interest rates on loans and deposits published and adjusted from time to time by the PBoC. The PBoC has, in the past few years, made multiple downward adjustments to the benchmark interest rates for deposits and loans. In October 2015, the PBoC further lowered the benchmark interest rates for RMB-denominated one-year deposits and loans. On August 16, 2019, the PBoC announced to reform the mechanism used to establish the loan prime rate ("**LPR**"). According to the PBoC, commercial banks must set interest rates on new loans by mainly referring to the LPR. The PBoC's interest rate adjustments for deposits and the adjustments for LPR may be asymmetrical, which may impact our net interest spread.

In recent years, China has continued its interest rate liberalization and moved towards a market-based interest rate regime. Effective from June 8, 2012, the PBoC allowed financial institutions to set interest rates on RMB-denominated deposits at up to 110% of the PBoC benchmark rates. This cap was subsequently raised to 120%, 130% and 150% of the PBoC benchmark rates on November 22, 2014, March 1, 2015 and May 11, 2015, respectively. Effective from August 26, 2015, the PBoC removed the interest rate cap on RMB-denominated time deposits with maturities over one year. Effective from October 24, 2015, the PBoC removed the interest rate cap on RMB-denominated demand deposits as well as time deposits with maturities of less than one year. On July 20, 2013, the PBoC removed the interest rate floor on loans from financial institutions to allow them to set interest rates based on commercial considerations (except for residential mortgage loans where the original floor rate and cap rate remained unchanged and PRC Government still requires relevant authorities to stringently implement diversified credit policies). On August 16, 2019, the PBoC announced to reform the mechanism used to establish the LPR, which would be linked to rates set during open market operations, primarily the PBoC's medium-term lending facility (MLF), and better reflect market demand for funds. The liberalization of interest rates may bring more competition to the PRC banking industry, thereby affecting our business, results of operations and financial condition. In addition, PRC Government may guide interest rates from time to time in accordance with macroeconomic adjustment targets.

In addition, the market liquidity and competition may lead to fluctuations in the net interest spread for our interbank businesses. As a result, our net interest income may be impacted and our business, results of operations and financial condition may also be affected. Please also see "Risk Factors — Risks Relating to Our Business — Further development of interest rate liberalization, the PBoC's adjustments to the benchmark interest rate, the deposit insurance program and other regulatory changes in the PRC's banking industry may materially and adversely affect our results of operations".

Regulatory Environment

The PRC banking industry is highly regulated. PRC city commercial banks are mainly regulated by the CBIRC and the PBoC. Additionally, PRC city commercial banks are also subject to the supervision and regulation of other regulatory authorities, including the SAFE, CSRC, MOF, NAO, NDRC, SAT and SAIC and their authorized branches. Please see "Supervision and Regulation — Principal Regulators".

In recent years, PRC Government has implemented a series of macroeconomic and monetary policies, including (i) adjusting the benchmark interest rates and the PBoC statutory deposit reserve ratios for commercial banks, as well as gradually liberalizing the regulation of interest rates; (ii) adopting a Macro Prudential Assessment (MPA) system to monitor banks' capital adequacy ratios, assets and liabilities, liquidity and risk; and (iii) promoting the growth of certain industries or controlling overcapacity in certain other industries, by issuing industry development guidelines. For example, on March 1, 2016, the PBoC lowered the statutory deposit reserve ratio by 50 basis points for all deposit-taking financial institutions, which lowered banks' funding costs and increased their liquidity. These macroeconomic and monetary policies have had a significant impact on the lending activities of PRC city commercial banks and borrowers' demand for bank financing, which in turn may affect the business, results of operations and financial condition of PRC city commercial banks, including ours.

Our business, results of operations and financial condition are affected by changes in PRC banking laws, regulations and policies, such as the scope of business activities PRC city commercial banks are permitted to engage in, interest and fees PRC city commercial banks are allowed to charge, and restrictions imposed by regulatory authorities on PRC city commercial banks in respect of credit extended to borrowers in specific industries or specific loan products.

Development of PRC's Capital Markets and Internet Finance

Recently, China has launched a number of initiatives to develop its capital markets, including encouraging enterprises to seek direct financing from the capital markets utilizing different instruments, such as debt securities. These initiatives may affect the results of our corporate banking business. For example, the development of PRC's debt capital markets may impact our lending business, as certain corporate banking customers may issue debt securities at lower costs to meet their financing needs and thus have lower demand for bank loans.

Furthermore, our retail banking is experiencing challenges from internet finance companies, particularly the competition arising from the adoption of innovative financial products and technology. Similar to other city commercial banks, we are facing strong challenges from internet finance companies due to various factors, including different regulatory regimes, technological capability, and market penetration units. For instance, products and services offered by online financial product market places and P2P lending platforms may materially affect market demand for personal loans and personal deposit services from our bank.

Competitive Landscape in the PRC Banking Industry

We compete primarily with commercial banks operating in Shandong Province, mainly on product offerings and prices, service quality, brand recognition, distribution networks and information technology capabilities. We also mainly face competition from other banking financial institutions in Shandong Province.

In recent years, certain commercial banks in the PRC have completed initial public offerings, which have enabled them to obtain more funding and access to a wider range of financing sources. Therefore, they can offer more innovative products and higher quality services and have increased their adaptability in a changing market environment. The increasing competition in the PRC banking industry may affect the pricing of our loans and deposits as well as our fee- and commission-based banking business. Please see "Business — Competition".

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of our accounting policies described in Note 2 of the Accountants' Report attached as Appendix I to this prospectus, our management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates and we currently do not expect any significant changes to these estimates in the foreseeable future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following is a description of the key estimation uncertainties and the critical judgments that we have made in the process of applying our accounting policies that have the most significant effect on the amounts recognized in our financial statements and in the next twelve months. Please see also Note 2 to the Accountants' Report as set out in Appendix I to this prospectus.

Determination of Control Over Investees

Determining whether we control such a structured entity, we need to assess the aggregate economic interests in the entity (including any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by us, the aggregate economic interest is in each case not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, we have concluded that it acts as an agent as opposed to principal for the investors in all cases and therefore has not consolidated these structured entities.

Impairment of Financial Assets

Except for financial investments measured at fair value through profit or loss, prior to January 1, 2018, we reviewed financial assets periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for loans and advances to customers and investments. It also includes observable data indicating adverse changes in the repayment status of the debtors or change in national or local economic conditions that causes the default in payment.

For details on how our financial assets were individually or collectively assessed for impairment, please see Note 41 (a) to the Accountants' Report in Appendix I.

After January 1, 2018, we adopted a new expected credit loss impairment model when we assessed the impairment of our financial assets. The measurement of the expected credit loss allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 41(a) to the Accountants' Report in Appendix I.

In general, a number of significant judgments are required in applying the accounting requirements for measuring expected credit losses, such as:

- Determining criteria for significant increase in credit risk;

- Choosing appropriate models and assumptions for the measurement of expected credit losses; and

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses.

Detailed information about the judgments and estimates adopted by us is set out in Note 41(a) credit risk of the Accountants' Report in Appendix I.

Fair Value of Financial Instruments

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, we establish fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

During the Track Record Period, we had certain financial assets categorized within Level 3 of fair value measurement ("**Level 3 Financial Assets**"), which amounted to RMB nil, RMB16,640.5 million, RMB14,074.7 million and RMB13,822.4 million, respectively, as of December 31, 2017, 2018, 2019 and March 31, 2020, representing approximately nil, 8.2%, 6.3% and 5.9%, respectively, of our total assets as of the same dates. For details on the Level 3 Financial Assets including their quantitative sensitivity analysis, please see Note 42(c) to the Accountants' Report in Appendix I.

During the Track Record Period, our Level 3 Financial Assets primarily consisted of debt securities investment, SPV Investment and equity investment which we conducted in our normal course of business. We have established a sound internal procedure for valuating such financial assets in compliance with the applicable laws, regulations and accounting policies. The relevant valuation work is carried out monthly in principle. Our Risk Management Department at the headquarters are responsible for taking lead of conducting such valuation, and our senior management is responsible for specific management on the valuation work. More specifically, our Financial Market Department will provide full and complete financial instrument transaction data to the Risk Management Department for its valuation. Our Risk Management Department will then take the lead in determining the appropriate valuation techniques and valuation models, the standards used in such valuation work and to conduct independent valuation of the financial instruments that need to be measured at fair value, and finally submit the valuation result including relevant parameters to the senior management for their approval. In addition to the monthly valuation, our Audit Department also performs audit regularly on the internal control procedures, valuation model, parameters and information disclosure of the valuation of fair value.

In addition, the regulatory authorities including CBIRC and PBoC also carry out routine and ad hoc inspections in relation to the valuation work. During the Track Record Period, the regulatory authorities did not identify any issue or deficiency on the valuation of financial assets. We believe our policies and procedures on valuation of financial assets are line with the applicable laws and regulations.

Our Reporting Accountants also have conducted their work in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" (the "**HKSIR 200**") issued by the Hong Kong Institute of Certified Public Accountants in order to express an opinion on the Historical Financial Information (as defined in the Appendix I to the prospectus). This standard requires that the Reporting Accountants plan and perform their work to obtain reasonable assurance about whether the Historical Financial Information as a whole is free from material misstatement. In accordance with HKSIR 200, the Reporting Accountants have performed relevant procedures to obtain sufficient and appropriate audit evidence in relation to the valuation of the Level 3 Financial Assets and are of the view that no significant adjustment is expected to be made to the Accountants' Report on the Historical Financial Information included in the prospectus.

In relation to the valuation of the Level 3 Financial Assets, our Directors had reviewed the valuation works and results prepared by our employee in charge of the valuation works and the financial statements prepared in accordance with IFRS, and had obtained sufficient understanding of the valuation model, methodologies and techniques on which the valuation is based. Based on the above, our Directors are of the view that the valuation analysis performed during the Track Record Period is fair and reasonable, and our financial statements are properly prepared. In addition, our Directors are satisfied with the valuation work for the Level 3 Financial Assets performed during the Track Record Period.

In relation to the valuation of the Level 3 Financial Assets, the Joint Sponsors have (i) discussed with us to understand our policies and procedures in relation to the valuation of our Level 3 Financial Assets and the valuation model adopted by us; (ii) reviewed the relevant documents and information provided by us; (iii) discussed with our Reporting Accountants to understand the work they have performed in relation to such valuation; and (iv) reviewed the relevant notes contained in the Accountants' Report, and nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to disagree with the valuation analysis performed by us on our Level 3 Financial Assets.

Impairment on Non-Financial Assets

Fixed assets, investment properties, intangible assets and right-of-use assets with finite useful lives, among others, are tested for impairment if there is any indication that the assets may be impaired as of 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 loss 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 net value 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 loss is determined and recognized on an 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.

We determine the useful life of intangible assets based on the period in which the intangible assets are expected to bring economic benefits to us. For example, computer software is estimated to have a useful life of five years because the majority of our major business operating systems, such as our core business system, credit management system and financial information system, were put into use after 2014 and are currently still in use and able to meet the demands of our business development. Therefore, based on our historical experience, we estimate that the relevant computer software systems can be used for five years and will bring economic benefits to us over that period.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as gains immediately.

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 current tax laws and regulations as well as the policies applied 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. 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.

Impact of New Accounting Policies

We have adopted IFRS 9 as issued by the IASB since January 1, 2018, which resulted in changes in our accounting policies. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities; impairment of financial assets and hedge accounting.

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 requires 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 "amortised cost" or "fair value through other comprehensive income" under IFRS 9, we are 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. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognized. Instead, an entity is required to recognize and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances, which will result in an early recognition of credit losses. For details of the provision matrix for financial assets, please see Note 41 to the Accountants' Report in Appendix I. Please also see the section headed "Risk Factors — Risks Relating to Our Business — Changes in accounting standards or policies may materially affect our financial condition and results of operations".

Under the expected credit loss impairment model, the rate of expected credit losses is calculated by dividing expected credit loss allowance by the balance of related assets. As of December 31, 2018, 2019 and March 31, 2020, the ECL rate for our financial assets measured at amortized cost was 1.69%, 1.85% and 2.04%. This type of financial assets mainly includes the loans and advances to customers and financial investments which are measured at amortized cost. As of December 31, 2018, 2019 and March 31, 2020, the ECL rate for loans and advances to customers which are classified as financial assets measured at amortized cost was 3.21%, 3.18% and 3.12%, and the ECL rate for financial investments measured at amortized cost was 0.33%, 0.54% and 0.70%. For more details on the expected credit loss impairment model and provision matrix for financial assets, please see Note 41 to the Accountants' Report in Appendix I.

The table below sets out certain key classification requirements of IFRS 9 that led to changes in classification of certain financial assets held by us.

Discounted bills	Discounted bills held within a business model whose objective was to collect contractual cash flows and sell financial assets. In addition, their contractual cash flows were identified solely as payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at fair value through other comprehensive income under IFRS 9.
Financial investments	Certain debt instruments were originally classified as receivables or certain available for-sale financial assets, and their contractual cash flows were not identified solely as payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at fair value through profit or loss under IFRS 9. Certain equity investments we held were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income. These equity investments were previously stated at cost as they do not have quoted price in an active market. The Group intends to hold these equity investments for long-term strategic purposes. Therefore, the Group has now designated these equity investments at the date of initial application as financial assets at fair value through other comprehensive income.

In addition, certain financial assets classification under IAS 39 is replaced by the classification under IFRS 9 at the same measure methods as follows: (i) certain financial assets originally classified as receivables were classified as financial assets at amortized cost under IFRS 9; (ii) certain financial assets originally classified as held-to-maturity investments were classified as financial assets at amortized cost under IFRS 9; and (iii) certain financial assets originally classified as available-for-sale financial assets were classified as financial asset at fair value through other comprehensive income under IFRS 9.

Except for the changes in relation to impairment and classification and measurement of financial assets, the adoption of IFRS 9 does not result in any significant impact on our financial position and performance compared to the adoption of IAS 39.

To illustrate the difference between IAS 39 and IFRS 9, we have prepared the following financial information for the years ended December 31, 2018 according to IAS 39 and IFRS 9, respectively:

	For the year ended December 31, 2018	
	Prepared according to IAS 39[(1)]	**Prepared according to IFRS 9**
	(unaudited)	
	(in millions of RMB)	
Interest income	8,909.7	7,259.8
Interest expense	(5,357.3)	(5,357.3)
Net interest income	**3,552.4**	**1,902.5**
Fee and commission income	370.3	370.3
Fee and commission expense	(297.1)	(297.1)
Net fee and commission income	**73.2**	**73.2**
Net trading gains	81.0	65.3
Net gains arising from investment securities	123.5	1,773.4
Other operating income	19.2	19.2
Operating income	**3,849.3**	**3,833.6**
Operating expenses	(1,348.8)	(1,348.8)
Operation profit	**2,500.5**	**2,484.8**
Impairment losses on assets	(1,367.1)	(1,335.3)
Profit before tax	**1,133.4**	**1,149.5**
Less: Income tax expense	(124.9)	(132.2)
Net profit	**1,008.5**	**1,017.3**
Net profit attributable to equity shareholders of the Bank	955.6	964.4
Net profit attributable to non-controlling interests	52.9	52.9
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Net movement in the fair value reserve (net of tax) of financial assets at fair value through other comprehensive income	N/A	126.5
Net movement in the impairment reserve (net of tax) of financial assets at fair value through other comprehensive income	N/A	4.5
Available-for-sale financial assets: net movement in the fair value reserve, net of tax	138.3	—
Items that will not be reclassified subsequently to profit or loss:		
Net movement in the fair value reserve (net of tax) of financial assets at fair value through other comprehensive income	–	(0.5)
Other comprehensive income, net of tax	**138.3**	**130.5**
Total comprehensive income	**1,146.8**	**1,147.8**
Total comprehensive income attributable to equity shareholders of the Bank	1,093.9	1,094.9
Total comprehensive income attributable to non-controlling interests	52.9	52.9
Basic and diluted earnings per share (in RMB)	0.23	0.23

Note:

(1) These amounts under IAS 39 were prepared for illustrating the difference between IAS 39 and IFRS 9 only. Neither we had prepared, nor the reporting accountants had audited or reviewed, consolidated financial statements of the Group for the year ended December 31, 2018 based on IAS 39.

To show the impact of IFRS 9 on our financial results, we include here our financial results as of January 1, 2018 prepared in accordance with IFRS 9. For more details on the effect of the adjustments arising from the adoption of IFRS 9, please also see Note 2(1)(a) to the Accountants' Report in Appendix I.

	As of December 31, 2017	As of January 1, 2018
	Prepared according to IAS 39	Prepared according to IFRS 9
		(unaudited)
	(In millions of RMB)	
Cash and deposits with the central bank	19,149.5	19,149.5
Deposits with banks and other financial institutions	1,129.5	1,129.4
Financial assets held under resale agreements	15,058.1	15,044.3
Placements with banks and other financial institutions	1,202.3	1,202.3
Total loans to customers	66,518.6	66,525.2
Related loans to customer impairment provision	(1,721.2)	(1,949.4)
Net loans to customer	64,797.4	64,575.8
Total financial investments	91,682.4	91,475.9
Related financial investments impairment provision	(367.5)	(162.4)
Net financial investments	91,314.9	91,313.5
Property and equipment	751.0	751.0
Deferred tax assets	266.6	346.3
Other assets	10,828.6	10,817.9
Total assets	**204,497.9**	**204,330.0**
Borrowing from the central bank	3,166.4	3,166.4
Deposits from banks and other financial institutions	2,633.0	2,633.0
Placements from banks and other financial institutions	6,686.0	6,686.0
Financial assets sold under repurchase agreements	22,020.1	22,020.1
Deposits from customers	120,096.0	120,096.0
Income tax payable	85.1	85.1
Debt securities issued	33,412.8	33,412.8
Other liabilities	5,327.4	5,393.8
Total Liabilities	**193,426.8**	**193,493.2**
Share capital	4,171.2	4,171.2
Capital reserve	1,680.0	1,680.0
Fair value reserve	(54.3)	(179.1)
Impairment reserve	—	3.7
Surplus reserve	867.0	867.0
General reserve	1,573.6	1,573.6
Retained earnings	2,446.0	2,332.8
Non-controlling interests	387.6	387.6
Total equity	**11,071.1**	**10,836.8**
Total liabilities and equity	**204,497.9**	**204,330.0**

In addition, we have adopted IFRS 15 on January 1, 2018. IFRS 15 replaces IAS 18 that we adopted prior to January 1, 2018 regarding recognition, classification and measurement of revenue and cost. Compared to IAS 18, the adoption of IFRS 15 for 2018 does not result in any significant impact on our financial position and performance. Please also see Note 2(1)(a) to the Accountants' Report in Appendix I.

We have adopted IFRS 16 on January 1, 2019, replacing IAS 17 which we adopted prior to January 1, 2019. IFRS 16 primarily affected our accounting as a lessee of the lease for certain office premise which is currently classified as operating leases. Under IFRS 16, we recognized right-of-use assets and lease liabilities on the balance sheet for most leases which were classified as operating leases under IAS 17. We decided to apply recognition exemptions to leases with less than 12 months of lease term and leases of low-value assets. We used the modified retrospective approach for the adoption of IFRS 16, and recognized right-of-use assets and lease liabilities with an amount of RMB462.6 million and RMB427.8 million as of January 1, 2019. There was no adjustment to the balance of equity as of January 1, 2019, and we did not restate the comparative information. The adoption of IFRS 16 does not result in any significant impact on our financial position and performance compared to financial results under IAS 17. Please see Note 2(i)(a) of the Accountant's Report in Appendix I for further details.

SELECTED FINANCIAL DATA

The following table sets forth our results of operations for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2017[1]	**2018[2]**	**2019[2]**	**2019[2] (unaudited)**	**2020[2]**
			(in millions of RMB)		
Interest income	8,385.9	7,259.8	8,957.6	2,052.4	2,491.4
Interest expense	(4,741.6)	(5,357.3)	(5,651.4)	(1,355.5)	(1,559.8)
Net interest income	**3,644.3**	**1,902.5**	**3,306.2**	**696.9**	**931.6**
Fee and commission income	336.2	370.3	416.4	117.1	136.8
Fee and commission expense	(99.5)	(297.1)	(144.7)	(70.9)	(13.1)
Net fee and commission income	**236.7**	**73.2**	**271.7**	**46.2**	**123.7**
Net trading (losses)/gains	(39.0)	65.3	74.4	59.6	(12.7)
Net gains arising from investment securities	44.2	1,773.4	1,294.5	353.1	417.3
Other operating income[3]	21.8	19.2	0.4	3.3	5.2
Operating income	**3,908.0**	**3,833.6**	**4,947.2**	**1,159.1**	**1,465.1**
Operating expenses	(1,439.2)	(1,348.8)	(1,462.3)	(366.3)	(358.3)
Impairment losses on assets	(511.2)	(1,335.3)	(1,671.2)	(346.3)	(634.3)
Profit before tax	**1,957.6**	**1,149.5**	**1,813.7**	**446.5**	**472.5**
Income tax expense	(354.8)	(132.2)	(290.0)	(70.4)	(80.7)
Net profit	**1,602.8**	**1,017.3**	**1,523.7**	**376.1**	**391.8**

	For the year ended December 31,			For the three months ended March 31,	
	2017[1]	2018[2]	2019[2]	2019[2] (unaudited)	2020[2]
	(in millions of RMB)				
Net profit attributable to non-controlling interests	35.8	52.9	84.0	20.2	32.4
Net profit attributable to equity shareholders of the Bank	1,567.0	964.4	1,439.7	355.9	359.4
Basic earnings per share (RMB/share)	0.38	0.23	0.29	0.07	0.07
Diluted earnings per share (RMB/share)	0.38	0.23	0.29	0.07	0.07

Notes:

(1) IAS 39 was adopted prior to January 1, 2018.

(2) IFRS 9 was adopted from January 1, 2018 onwards.

(3) Consisted primarily of government grants, rental income and net gains on disposal of collaterals.

The following table sets forth our assets and liabilities for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019 (unaudited)	2020
	(in millions of RMB)				
Total assets	204,497.9	203,121.9	224,635.5	221,949.8	235,290.2
Loans and advances to customers	64,797.4	73,316.5	90,111.6	83,543.6	101,205.7
Total liabilities	193,426.8	189,314.4	206,712.0	207,796.2	217,135.7
Deposits from customers	120,096.0	117,469.7	144,234.0	128,475.8	156,635.1
Total equity attributable to equity shareholders of the Bank	10,683.5	13,367.0	14,399.4	13,692.9	14,493.0
Non-controlling interests	387.6	440.5	524.4	460.7	661.8

The following table sets forth profitability indicators for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019[6] (unaudited)	2020[6]
Return on average assets[1]	0.80%	0.47%	0.67%	0.68%	0.63%
Return on average equity[2]	15.30%	8.02%	10.27%	10.67%	10.02%
Net interest spread[3]	1.73%	1.49%	1.83%	1.66%	1.90%
Net interest margin[4]	1.96%	1.16%	1.74%	1.55%	1.79%
Cost-to-income ratio[5]	35.89%	34.23%	28.68%	30.75%	23.52%

Notes:

(1) Calculated by dividing net profit attributable to shareholders of the Group for the period by the average balance of total assets at the beginning and the end of the period.

(2) Calculated by dividing net profit attributable to shareholders of the Group for the period by the average balance of equity attributable to shareholders of the Bank at the beginning and the end of the period.

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

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

(5) Calculated by dividing total operating expenses (excluding taxes and surcharges) by total operating income.

(6) Calculated based on annualized basis.

The following table sets forth certain of our regulatory indicators as of the dates indicated, calculated in accordance with the requirements of the PRC banking regulatory authorities and/or applicable accounting standards:

	Regulatory requirement	As of December 31,			As of March 31,
		2017	2018	2019	2020
Capital adequacy indicators					
Core tier-one capital adequacy ratio(1)	≥7.5%	8.29%	10.39%	9.76%	9.17%
Tier-one capital adequacy ratio(2)	≥8.5%	8.32%	10.42%	11.78%	11.05%
Capital adequacy ratio(3)	≥10.50%	12.82%	15.12%	16.03%	15.05%
Asset quality indicators					
NPL ratio(4)	≤5.00%	1.47%	1.82%	1.80%	1.80%
Allowance coverage ratio(5)	≥150.00%	175.93%	163.26%	165.50%	160.60%
Allowance to gross loan ratio(6)	≥2.50%	2.59%	2.98%	2.99%	2.90%
Other indicator					
Loan-to-deposit ratio(7)	N/A	55.38%	64.94%	65.01%	66.94%

Notes:

(1) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation — Supervision over Capital Adequacy — Latest Supervisory Standards Over Capital Adequacy" and "— Capital Resources — Capital Adequacy".

(2) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation — Supervision over Capital Adequacy — Latest Supervisory Standards Over Capital Adequacy" and "— Capital Resources — Capital Adequacy".

(3) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation — Supervision over Capital Adequacy — Latest Supervisory Standards Over Capital Adequacy" and "— Capital Resources — Capital Adequacy".

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

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

(6) Calculated by dividing total allowance for impairment losses on loans to customers by gross loans and advances to customers.

(7) Calculated by dividing total loans and advances to customers by total deposits from customers. Prior to October 1, 2015, PRC commercial banks were required to maintain a loan-to-deposit ratio of no higher than 75%. Effective from October 1, 2015, the PRC Commercial Banking Law was amended and the 75% maximum loan-to-deposits ratio was repealed.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2020

Our net profit for the three months ended March 31, 2020 amounted to RMB391.8 million, representing an increase of 4.2% from RMB376.1 million for the three months ended March 31, 2019, primarily due to our continued development of corporate and retail banking business, an increase in the scale of loans and advances to customers, which affected the increase in both net interest income and net fees and commissions.

Net Interest Income

Net interest income was the largest component of our operating income, representing 60.1% and 63.6% of our operating income for the three months ended March 31, 2019 and 2020, respectively.

The following table sets forth our interest income, interest expense and net interest income for the periods indicated:

	For the three months ended March 31,	
	2019[1] (unaudited)	2020[1]
	(in millions of RMB)	
Interest income	2,052.4	2,491.4
Interest expense	(1,355.5)	(1,559.8)
Net interest income	**696.9**	**931.6**

Note:

(1) Prepared in accordance with IFRS 9.

Our net interest income for the three months ended March 31, 2020 amounted to RMB931.6 million, representing an increase of 33.7% from RMB696.9 million for the three months ended March 31, 2019, primarily attributable to a 21.4% increase in interest income during the same period, which was partially offset by a 15.1% increase in interest expenses.

The increase in interest income were primarily due to the (i) increases in the average balance of our total interest earning assets from RMB181,877.2 million for the three months ended March 31, 2019 to RMB209,798.2 million for the three months ended March 31, 2020 primarily due to our continued development of corporate and retail banking business, resulting in an increase in net loans and advances to customers; and (ii) an increase of average yield of our total interest-earning assets from 4.58% for the three months ended March 31, 2019 to 4.78% for the three months ended March 31, 2020, primarily due to an increase in average yield on loans and advances to customers and financial investment.

The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yields on assets or related average cost on liabilities for the periods indicated:

	For the three months ended March 31,					
	2019[1] (unaudited)			2020[1]		
	Average balance	Interest income/ expense	Average yield/ cost[2]	Average balance	Interest income/ expense	Average yield/ cost[2]
	(in millions of RMB, except percentages)					
Interest-earning assets						
Loans and advances to customers	81,509.7	1,038.6	5.17%	99,626.8	1,331.9	5.38%
Financial investments[3]	70,222.0	747.0	4.31%	73,012.6	828.2	4.56%
Finance lease receivables	12,101.2	185.9	6.23%	14,740.6	240.6	6.56%
Financial assets held under resale agreements	2,110.8	13.3	2.56%	3,744.1	16.8	1.80%
Deposits with the central bank[4]	14,181.8	52.5	1.50%	16,037.7	58.3	1.46%
Deposits with banks and other financial institutions	924.0	7.6	3.34%	1,399.9	0.6	0.17%
Placements with banks and other financial institutions	827.7	7.5	3.67%	1,236.5	15.0	4.88%
Total interest-earning assets	**181,877.2**	**2,052.4**	**4.58%**	**209,798.2**	**2,491.4**	**4.78%**
Interest-bearing liabilities						
Deposits from customers	118,695.5	660.9	2.26%	148,347.8	1,058.0	2.63%
Deposits from banks and other financial institutions	6,992.2	73.3	4.25%	5,055.9	41.2	3.28%
Placements from banks and other financial institutions	9,558.8	111.8	4.74%	11,341.2	123.1	4.37%
Borrowing from the central bank	2,845.0	19.8	2.82%	4,950.3	33.7	2.74%
Financial assets sold under repurchase agreements	5,829.3	35.0	2.44%	5,141.9	21.3	1.67%
Discounted bills	1,440.7	9.9	2.79%	976.4	6.9	2.84%
Debt securities issued[5]	43,093.5	444.8	4.19%	29,491.8	275.6	3.76%
Total interest-bearing liabilities	**188,455.0**	**1,355.5**	**2.92%**	**205,305.3**	**1,559.8**	**2.88%**
Net interest income		**696.9**			**931.6**	
Net interest spread[6]			**1.66%**			**1.90%**
Net interest margin[7]			**1.55%**			**1.79%**

Notes:

(1) Prepared in accordance with IFRS 9.

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

(3) Financial investments consists of financial investments measured at amortized costs, financial investments measured at fair value through other comprehensive income and financial investments measured at fair value through profit or loss. For details, please see "Assets and Liabilities — Assets — Financial Investments".

(4) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(5) Consisted of certificates of interbank deposit, financial bonds and tier-two capital debts issued by us.

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

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

The following table sets forth the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate for the years indicated. Changes in volume are measured by changes in the average balances, and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in volume.

	For the three months ended March 31, 2020[(1)] vs. 2019[(1)] (unaudited)		
	Increase/(decrease) due to		Net increase/ (decrease)[(4)]
	Volume[(2)]	Rate[(3)]	
	(in millions of RMB)		
Assets			
Loans and advances to customers	242.2	51.1	293.3
Financial investments	31.7	49.5	81.2
Deposits with the central bank[(5)]	6.7	(0.9)	5.8
Deposits with banks and other financial institutions	0.2	(7.2)	(7.0)
Placements with banks and other financial institutions	4.9	2.6	7.5
Finance lease receivables	43.1	11.6	54.7
Financial assets held under resale agreements	7.3	(3.8)	3.5
Changes in interest income	**336.1**	**102.9**	**439.0**
Liabilities			
Deposits from customers	211.5	185.6	397.1
Deposits from banks and other financial institutions	(15.8)	(16.3)	(32.1)
Placements from banks and other financial institutions	19.4	(8.1)	11.3
Borrowing from the central bank	14.3	(0.4)	13.9
Financial assets sold under repurchase agreements	(2.8)	(10.9)	(13.7)
Discounted bills	(3.3)	0.3	(3.0)
Debt securities issued[(6)]	(127.1)	(42.1)	(169.2)
Changes in interest expense	**96.2**	**108.1**	**204.3**
Changes in net interest income	**239.9**	**(5.2)**	**234.7**

Notes:

(1) Prepared in accordance with IFRS 9.

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

(3) Represented 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.

(4) Represented interest income/expense for the period minus interest income/expense for the previous period.

(5) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(6) Consisted of certificates of interbank deposits, financial bonds, and tier-two capital debts issued by us.

Interest Income

Our interest income increased by 21.4% from RMB2,052.4 million for the three months ended March 31, 2019 to RMB2,491.4 million for the three months ended March 31, 2020, primarily due to (i) an increase in the average balance of our interest-earning assets from RMB181,877.2 million for the three months ended March 31, 2019 to RMB209,798.2 million for the three months ended March 31, 2020, and (ii) an increase in the average yield on our interest-earning assets from 4.58% for the three months ended March 31, 2019 to 4.78% for the three months ended March 31, 2020. The increase in the average balance of our interest-earning assets was primarily attributable to the increase in average balance of loans and advances to customers. The increase in the average yield on our interest-earning assets mainly resulted from the increased average yield on loans and advances to customers and increased in average yield on financial investment.

The following table sets forth a breakdown of our interest income for the periods indicated:

	For the three months ended March 31,			
	2019[1] (unaudited)		2020[1]	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Interest income from				
Loans and advances to customers				
Corporate Loans	740.7	36.1%	911.8	36.6%
Personal loans	220.4	10.7%	342.2	13.8%
Discounted bills	77.5	3.8%	77.9	3.1%
Subtotal	**1,038.6**	**50.6%**	**1,331.9**	**53.5%**
Financial investments	747.0	36.4%	828.2	33.2%
Deposits with banks and other financial institutions	7.6	0.4%	0.6	0.0%
Placements with banks and other financial institutions	7.5	0.4%	15.0	0.6%
Financial assets held under resale agreements	13.3	0.6%	16.8	0.7%
Finance lease receivables	185.9	9.1%	240.6	9.7%
Deposits with the central bank	52.5	2.5%	58.3	2.3%
Total interest income	**2,052.4**	**100.0%**	**2,491.4**	**100.0%**

Note:

(1) Prepared in accordance with IFRS 9.

Interest Income from Loans and Advances to Customers

Our interest income from loans and advances to customers represented 50.6% and 53.5% of our interest income for the three months ended March 31, 2019 and 2020, respectively.

The following table sets forth the average balance, interest income and average yield for each component of our loans and advances to customers for the periods indicated:

	For the three months ended March 31,					
	2019(1) (unaudited)			2020(1)		
	Average balance	Interest income	Average yield(2)	Average balance	Interest income	Average yield(2)
	(in millions of RMB, except percentages)					
Corporate loans	58,570.7	740.7	5.13%	68,220.5	911.8	5.38%
Personal loans	15,687.1	220.4	5.70%	23,448.8	342.2	5.87%
Discounted bills	7,251.9	77.5	4.33%	7,957.5	77.9	3.94%
Total loans and advances to customers	**81,509.7**	**1,038.6**	**5.17%**	**99,626.8**	**1,331.9**	**5.38%**

Notes:

(1) Prepared in accordance with IFRS 9.

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

Our interest income from loans and advances to customers increased by 28.2% from RMB1,038.6 million for the three months ended March 31, 2019 to RMB1,331.9 million for the three months ended March 31, 2020, primarily due to (i) a 22.2% increase in the average balance of loans and advances to customers from RMB81,509.7 million for the three months ended March 31, 2019 to RMB99,626.8 million for the three months ended March 31, 2020; and (ii) an increase in the average yield on loans and advances to customers from 5.17% for the three months ended March 31, 2019 to 5.38% for the three months ended March 31, 2020. The increase in the average yield on loans and advances to customers was primarily due to the overall increase of our loan business and the allocation of more resources to loan business with relatively higher yield.

Interest income from corporate loans was the largest component of our interest income from loans and advances to customers, representing 71.3% and 68.5% of our total interest income from loans and advances to customers for the three months ended March 31, 2019 and 2020, respectively.

Corporate Loans

Our interest income from corporate loans increased by 23.1% from RMB740.7 million for the three months ended March 31, 2019 to RMB911.8 million for the three months ended March 31, 2020, primarily due to (i) a 16.5% increase in the average balance of corporate loans from RMB58,570.7 million for the three months ended March 31, 2019 to RMB68,220.5 million for the three months ended March 31, 2020; and (ii) an increase in the average yield on corporate loans from 5.13% for the three months ended March 31, 2019 to 5.38% for the three months ended March 31, 2020. The increase in the average balance of corporate loans was primarily due to the continuous development of the corporate business, particularly an increase in the loans for water conservancy, environment and public utilities management. The increase in the average yield on our corporate loans was primarily because we continued to optimize the structure of corporate loan portfolios to allocate more resources to loans which had relatively high yields, while maintaining risk under control.

Personal Loans

Our interest income from personal loans increased by 55.3% from RMB220.4 million for the three months ended March 31, 2019 to RMB342.2 million for the three months ended March 31, 2020, primarily due to (i) a 49.5% increase in the average balance of personal loans from RMB15,687.1 million for the three months ended March 31, 2019 to RMB23,448.8 million for the three months ended March 31, 2020; and (ii) an increase in the average yield on personal loans from 5.70% for the three months ended March 31, 2019 to 5.87% for the three months ended March 31, 2020. The increase in the average balance of our personal loans was primarily attributable to our continuous efforts to develop personal loans business, and our increase in placements of inclusive loans, especially personal business loans. The increase in the average yield on personal loans was primarily attributable to our strengthening on interest rates and pricing management.

Discounted Bills

Our interest income from discounted bills increased slightly by 0.5% from RMB77.5 million for the three months ended March 31, 2019 to RMB77.9 million for the three months ended March 31, 2020, primarily due to a 9.7% increase in the average balance of discounted bills from RMB7,251.9 million for the three months ended March 31, 2019 to RMB7,957.5 million for the three months ended March 31, 2020, which was partially offset by a decrease in the average yield on discounted bills from 4.33% for the three months ended March 31, 2019 to 3.94% for the three months ended March 31, 2020. The increase in the average balance of discounted bills was primarily due to our increase in the scale of discounted bills by considering various factors such as the market rates, discounted bills with relatively low risks and high liquidity for the three months ended March 31, 2020. The decrease in the average yield on discounted bills was primarily due to the loose market liquidity in the first quarter of 2020 and the decline in the money market rates, which resulted in a decline in discounted bill rates.

Interest Income from Financial Investments

Our interest income from financial investments increased by 10.9% from RMB747.0 million for the three months ended March 31, 2019 to RMB828.2 million for the three months ended March 31, 2020, primarily due to (i) an increase in the average yield on our financial investments from 4.31% to 4.56%; and (ii) a slight increase of 4.0% in the average balance of the financial investments from RMB70,222.0 million to RMB73,012.6 million. The increase in the average yield on our financial investments is primarily due to our allocation of more funds to financial investments which have high yields (particularly the investment in the debt securities). The increase in our average balance is primarily due to our increased investments in the debt securities in order to enrich our asset portfolios and at the same time obtained higher investment returns, in order to address the challenges from interest rate liberalization.

The following table sets forth a breakdown of our interest income from our financial investments as well as their respective average yields for the periods indicated:

	For the three months ended March 31,					
	2019[1] (unaudited)			2020[1]		
	Average balance	Interest income	Average yield[2]	Average balance	Interest income	Average yield[2]
	(in millions of RMB, except percentages)					
Debt securities investment	48,655.5	460.0	3.83%	52,345.2	531.3	4.08%
SPV Investment	17,500.4	252.1	5.84%	18,461.0	279.2	6.08%
Other financial investment[3]	4,066.1	34.9	3.48%	2,206.4	17.7	3.23%
Total	**70,222.0**	**747.0**	**4.31%**	**73,012.6**	**828.2**	**4.56%**

Notes:

(1) Prepared in accordance with IFRS 9.

(2) Calculated by dividing (i) our interest income from the corresponding assets in the year, by (ii) the average balance of these assets.

(3) Consisted primarily of certificates of interbank deposit.

For the three months ended March 31, 2019 and 2020, our interest income from SPV Investment represented 33.7% and 33.7%, respectively, of total interest income from our financial investment. The average yield on our SPV Investment was 5.84% and 6.08% for the three months ended March 31, 2019 and 2020, respectively. The slight increase in the average yield on our SPV Investment for the three months ended March 31, 2019 to for the three months ended March 31, 2020 was primarily because we prudently opted for investments in credit based trust plans with higher yield while maintaining stringent risk control.

For our debt securities investment, for the three months ended March 31, 2019 and 2020, our interest income from debt securities investment represented 61.6% and 64.2%, respectively, of total interest income from our financial investment. The average yield was

3.83% and 4.08% for the three months ended March 31, 2019 and 2020, respectively. The average yield on our debt securities investment increased slightly from 3.83% for the three months ended March 31, 2019 to 4.08% for the three months ended March 31, 2020, primarily due to the increase of investment in debt securities with high yield.

Financial Lease Receivables

Financial lease receivables include interest income from our subsidiary Shandong Tongda Financial Leasing Co., Ltd. which was established in June 2016. Our financial leasing solutions are primarily in the form of direct lease and leaseback, and under certain circumstances, we also provide tailored financial leasing solutions to accommodate various business needs of our clients. In addition to traditional financial leasing solutions, we provide other services such as operating leases, investment in fixed securities income, interbank lending, sale and disposal of leased properties. For details of Tongda Financial Leasing Co., Ltd., please see “Business — Financial Leasing Company”.

Our interest income from financial lease receivables represented 9.1% and 9.7% of our interest income for the three months ended March 31, 2019 and 2020, respectively. The increase in the interest income from our financial lease receivables was primarily due to (i) an increase of 21.8% in our average balance of our financial lease receivables from RMB12,101.2 million for the three months ended March 31, 2019 to RMB14,740.6 million for the three months ended March 31, 2020; and (ii) the continued increase in the average yield on financial lease receivables from 6.23% for the three months ended March 31, 2019 to 6.56% for the three months ended March 31, 2020. The increase in the average balance on financial lease receivables was mainly due to the growth of our financial leasing business as well as our enhanced capability to expand the financial leasing business outside Shandong Province while the increase in the average yield on financial lease receivables was primarily because we recognized more interest income in the first quarter of 2020 from our financial leasing transactions in 2019.

Interest Income from Financial Assets Held under Resale Agreements

Interest income from financial assets held under resale agreements represented 0.6% and 0.7% of our interest income for the three months ended March 31, 2019 and 2020, respectively.

Our interest income from financial assets held under resale agreements increased by 26.3% from RMB13.3 million for the three months ended March 31, 2019 to RMB16.8 million for the three months ended March 31, 2020, primarily due to an increase of 77.4% in the average balance of our financial assets held under resale agreements from RMB2,110.8 million for the three months ended March 31, 2019 to RMB3,744.1 million for the three months ended March 31, 2020 which is partially offset by a decrease in the average yield on our financial assets held under resale agreements from 2.56% for the three months ended March 31, 2019 to 1.80% for the three months ended March 31, 2020. The increase in the average balance of our financial assets held under resale agreements was primarily because we proactively adjusted our asset allocation strategy and at the same time increased the scale of our financial assets held under resale agreements as part of our liquidity management, while the decrease in the average yield on our financial assets held under resale agreements was primarily due to the improvement on market liquidity for the three months ended March 31, 2020, which resulted in a decline in the money market rate.

Interest Income from Deposits with Banks and Other Financial Institutions

Interest income from deposits with banks and other financial institutions represented 0.4% and less than 0.1% of our interest income for the three months ended March 31, 2019 and 2020, respectively.

Our interest income from deposits with banks and other financial institutions decreased by 92.1% from RMB7.6 million for the three months ended March 31, 2019 to RMB0.6 million for the three months ended March 31, 2020, primarily due to a decrease in the average yield on our deposits with bank and other financial institutions from 3.34% for the three months ended March 31, 2019 to 0.17% for the three months ended March 31, 2020, which was partially offset by an increase of 51.5% in the average balance of our deposits with banks and other financial institutions from RMB924.0 million for the three months ended March 31, 2019 to RMB1,399.9 million for the three months ended March 31, 2020. The decrease in the average yield on our deposits with bank and other financial institutions was due to our decreased proportion of time deposits with banks and other financial institutions and due to the decreased in the interbank market interest rate. The increase in the average balance of our deposits with banks and other financial institutions was mainly due to the increase in foreign currency-denominated deposits with other banks.

Interest Income from Placements with Banks and Other Financial Institutions

Interest income from placements with banks and other financial institutions represented 0.4% and 0.6% of our interest income for the three months ended March 31, 2019 and 2020, respectively.

Our interest income from placements with banks and other financial institutions increased significantly from RMB7.5 million for the three months ended March 31, 2019 to RMB15.0 million for the three months ended March 31, 2020, primarily due to an increase in the average balance of our placements with banks and other financial institutions by 49.4% from RMB827.7 million for the three months ended March 31, 2019 to RMB1,236.5 million for the three months ended March 31, 2020 and an increase in the average yield on our placements with banks and other financial institutions from 3.67% for the three months ended March 31, 2019 to 4.88% for the three months ended March 31, 2020.

Interest Income from Deposits with the Central Bank

Our deposits with the central bank consist primarily of statutory deposit reserves and surplus deposit reserves with the PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at the PBoC, calculated as a percentage of the balance of our overall deposits from customers. Surplus deposit reserves are deposits with the PBoC in excess of statutory deposit reserves, which we maintain for liquidity purposes. Interest income from deposits with the central bank remained relatively steady for the first three months ended March 31, 2019 and 2020 and amounted to RMB52.5 million and RMB58.3 million respectively for the three months ended March 31, 2019 and 2020. Our interest income from deposits with the central bank represented 2.5% and 2.3% of our interest income, respectively.

Interest Expense

The following table sets forth a breakdown of our interest expense for the periods indicated:

	For the three months ended March 31,					
	2019[1] (unaudited)			2020[1]		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except for percentages)					
Interest expense						
Deposits from customers	118,695.5	660.9	2.26%	148,347.8	1,058.0	2.63%
Deposits from banks and other financial institutions	6,992.2	73.3	4.25%	5,055.9	41.2	3.28%
Placements from banks and other financial institutions	9,558.8	111.8	4.74%	11,341.2	123.1	4.37%
Borrowing from the central bank	2,845.0	19.8	2.82%	4,950.3	33.7	2.74%
Financial assets sold under repurchase agreements	5,829.3	35.0	2.44%	5,141.9	21.3	1.67%
Discounted bills	1,440.7	9.9	2.79%	976.4	6.9	2.84%
Debt securities issued[2]	43,093.5	444.8	4.19%	29,491.8	275.6	3.76%
Total interest expense	**188,455.0**	**1,355.5**	**2.92%**	**205,305.3**	**1,559.8**	**2.88%**

Notes:

(1) Prepared in accordance with IFRS 9.

(2) Consisted of certificates of interbank deposits, financial bonds, and tier-two capital debts issued by us.

Our interest expense increased by 15.1% from RMB1,355.5 million for the three months ended March 31, 2019 to RMB1,559.8 million for the three months ended March 31, 2020, primarily because (i) the average balance of interest-bearing liabilities increased by 8.9% from RMB188,455.0 million for the three months ended March 31, 2019 to RMB205,305.3 million for the three months ended March 31, 2020, which was partially offset by a slight decrease in the average cost on our interest-bearing liabilities from 2.92% for the three months ended March 31, 2019 to 2.88% for the three months ended March 31, 2020.

Interest Expense on Deposits from Customers

Deposits from customers were our primary source of funding. Our interest expense on deposits from customers accounted for 48.8% and 67.8% of our total interest expense for the three months ended March 31, 2019 and 2020, respectively.

The following table sets forth the average balance, interest expense and average cost of our deposits from customers by product type for the periods indicated:

	For the three months ended March 31,					
	2019[1] (unaudited)			2020[1]		
	Average balance	Interest expense	Average cost[2]	Average balance	Interest expense	Average cost[2]
	(in millions of RMB, except percentages)					
Corporate deposits[3]						
Time	32,793.4	211.0	2.61%	44,774.1	432.1	3.08%
Demand	38,936.5	95.1	0.99%	43,302.9	124.7	1.16%
Subtotal	**71,729.9**	**306.1**	**1.73%**	**88,077.0**	**556.8**	**2.13%**
Personal deposits						
Time	39,818.3	345.2	3.52%	52,228.9	490.2	3.77%
Demand	7,147.3	9.6	0.54%	8,041.9	11.0	0.55%
Subtotal	**46,965.6**	**354.8**	**3.06%**	**60,270.8**	**501.2**	**3.34%**
Total deposits from customers	**118,695.5**	**660.9**	**2.26%**	**148,347.8**	**1,058.0**	**2.63%**

Notes:

(1) Prepared in accordance with IFRS 9.

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

(3) Including pledged deposits.

Our interest expense on deposits from customers increased by 60.1% from RMB660.9 million for the three months ended March 31, 2019 to RMB1,058.0 million for the three months ended March 31, 2020, primarily because (i) the average cost on deposits from customers increased from 2.26% for the three months ended March 31, 2019 to 2.63% for the three months ended March 31, 2020, and (ii) the average balance of deposits from customers increased by 25.0% from RMB118,695.5 million for the three months ended March 31, 2019 to RMB148,347.8 million for the three months ended March 31, 2020. The increase in the average cost on deposits from customers was mainly due to the increased proportion of time deposits with relatively high cost. The increase in the average balance of deposits from customers was primarily due to our endeavor to develop deposit business by enhancing marketing efforts, improving service quality and optimizing product portfolios.

Interest Expense on Deposits from Banks and Other Financial Institutions

Our interest expense on deposits from banks and other financial institutions accounted for 5.4% and 2.6% of our total interest expense for the three months ended March 31, 2019 and 2020, respectively.

Our interest expense on deposits from banks and other financial institutions decreased by 43.8% from RMB73.3 million for the three months ended March 31, 2019 to RMB41.2 million for the three months ended March 31, 2020, primarily because the average balance of deposits from banks and other financial institutions decreased from RMB6,992.2 million for the three months ended March 31, 2019 to RMB5,055.9 million for the three months ended March 31, 2020, and the average cost of deposits from banks and other financial institutions decreased from 4.25% for the three months ended March 31, 2019 to 3.28% for the three months ended March 31, 2020. The decreased in the average balance of deposits from banks and other financial institutions was primarily due to a decrease in the scale of deposits from banks and other financial institutions as a result of our adjustment on our financing structure. The decrease in the average cost on deposits from banks and other financial institutions was primarily due to a decrease in the market interest rate for interbank deposits.

Interest Expense on Financial Assets Sold under Repurchase Agreements

Our interest expense on financial assets sold under repurchase agreements accounted for 2.6% and 1.4% of our total interest expense for the three months ended March 31, 2019 and 2020, respectively.

Our interest expense on financial assets sold under repurchase agreements decreased by 39.1% from RMB35.0 million for the three months ended March 31, 2019 to RMB21.3 million for the three months ended March 31, 2020, primarily because (i) the average cost on financial assets sold under repurchase agreements decreased from 2.44% for the three months ended March 31, 2019 to 1.67% for the three months ended March 31, 2020, and (ii) the average balance of financial assets sold under repurchase agreements decreased from RMB5,829.3 million for the three months ended March 31, 2019 to RMB5,141.9 million for the three months ended March 31, 2020. The decrease in the average cost on financial assets sold under repurchase agreements was primarily due to a decrease in the interbank market interest rate as a result of increased market liquidity while the decrease in the average balance of financial assets sold under repurchase agreements was primarily due to addition of sources of funding through channels such as deposits from customers to optimize the liability structure.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued accounted for 32.8% and 17.7% of our total interest expense for the three months ended March 31, 2019 and 2020, respectively. Please see the subsection headed "— Capital Resources — Debt — Debt Securities Issued".

Our interest expense on debt securities issued decreased by 38.0% from RMB444.8 million for the three months ended March 31, 2019 to RMB275.6 million for the three months ended March 31, 2020, primarily because (i) the average balance of debt securities issued decreased by 31.6% from RMB43,093.5 million for the three months ended March 31, 2019 to RMB29,491.8 million for the three months ended March 31, 2020, and (ii) the average cost on debt securities issued decreased from 4.19% for the three months ended March 31, 2019 to 3.76% for the three months ended March 31, 2020. The decrease in the average balance of debt securities issued was primarily attributable to our adjustments to the liability structure and reduction of the certificates of interbank deposit business in accordance with our liquidity demands. Please see "— Capital Resources — Debt — Debt Securities Issued" for details of our certificates of interbank deposit issued during the Track Record Period. The decrease in the average cost on debt securities issued was primarily because the market interest rate decreased as a result of increased market liquidity.

Interest Expense on Borrowing from the Central Bank

Our interest expense on borrowing from the central bank amounted to RMB19.8 million and RMB33.7 million for the three months ended March 31, 2019 and 2020, respectively, and accounted for 1.5% and 2.2% of our total interest expense of the same period, respectively.

Our interest expense on borrowing from the central bank increased by 70.2% from RMB19.8 million for the three months ended March 31, 2019 to RMB33.7 million for the three months ended March 31, 2020, primarily due the average balance on borrowing from central bank increased by 74.0% from RMB2,845.0 million for the three months ended March 31, 2019 to RMB4,950.3 million for the three months ended March 31, 2020, which was partially offset by a decrease of average costs on borrowing from central bank from 2.82% for the three months ended March 31, 2019 to 2.74% for the three months ended March 31, 2020. The increase in the average balance of borrowing from central bank because we actively responded to the refinancing policy promoted by PBoC, by increasing the support for micro and small enterprises and at the same time increasing the supply of credit to micro and small enterprises, while the decrease of average costs on borrowing from central bank was due to a 25 basis-point reduction in the refinancing rate for micro and small enterprises according to "Yinfa [2020] No. 53" (《銀發[2020]53號》) issued by the PBoC on the February 26, 2020.

Interest Expense on Placements from Banks and Other Financial Institutions

Our interest expense on placements from banks and other financial institutions accounted for 8.2% and 7.9% of our total interest expense for the three months ended March 31, 2019 and 2020, respectively.

Our interest expense on placements from banks and other financial institutions increased by 10.1% from RMB111.8 million for the three months ended March 31, 2019 to RMB123.1 million for the three months ended March 31, 2020, primarily because the average balance of placements from banks and other financial institutions increased by 18.6% from RMB9,558.8 million for the three months ended March 31, 2019 to RMB11,341.2 million for the three months ended March 31, 2020, which was partially offset by a decrease in the average cost on placements from banks and other financial institutions from 4.74% for the three months ended March 31, 2019 to 4.37% for the three months ended March 31, 2020. The increase in average balance on placements from banks and other financial institutions was primarily due to an increase in the scale of placements from banks and other financial institutions resulting from the growth of our financial leasing business whilst the decrease in the average costs on placements from banks and other financial institutions was primarily due to the decrease of interbank money market interest rate.

Interest Expenses on Discounted Bills

Our interest expense on discounted bills accounted for 0.7% and 0.4% of our total interest expense for the three months ended March 31, 2019 and 2020, respectively.

Our interest expense on discounted bills decreased by 30.3% from RMB9.9 million for the three months ended March 31, 2019 to RMB6.9 million for the three months ended March 31, 2020, primarily because the average balance of discounted bills decreased by 32.2% from RMB1,440.7 million for the three months ended March 31, 2019 to RMB976.4 million for the three months ended March 31, 2020, which was partially offset by a slight increase in the average cost on discounted bills from 2.79% for the three months ended March 31, 2019 to 2.84% for the three months ended March 31, 2020. The decrease of the average balance was primarily because we adjusted the proportion of the discounted bills in our liability structure according to liquidity requirements while the increase of the average costs was primarily because we adjusted the maturity profile of our discounted bills pool.

Net Interest Spread and Net Interest Margin

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

Our net interest spread increased from 1.66% for the three months ended March 31, 2019 to 1.90% for the three months ended March 31, 2020 and our net interest margin increased from 1.55% for the three months ended March 31, 2019 to 1.79% for the three months ended March 31, 2020, primarily because (i) our average yield on interest-earning assets increased from 4.58% for the three months ended March 31, 2019 to 4.78% for the three months ended March 31, 2020, as a result of an increase in the average yield of loans and advances to customers, as we increased the proportion of loans with relatively high yields to optimize our asset structure; (ii) our average balance of interest-earning assets increased by 15.4% from RMB181,877.2 million for the three months ended March 31, 2019 to RMB209,798.2 million for the three months ended March 31, 2020, as a results of an increase in our average balance of loans and advances from customers brought by the overall increase of our loan business; and (iii) our average cost of interest-bearing liabilities decreased from 2.92% for the three months ended March 31, 2019 to 2.88% for the three months ended March 31, 2020, mainly due to a decrease in the average cost of deposits from banks and other financial institutions, placements from bank and other financial institutions, financial assets sold under repurchase agreements and debt securities issued.

Net Fee and Commission Income

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,	
	2019[1] (unaudited)	2020[1]
	(in millions of RMB)	
Fee and commission income		
Agency services fees	43.2	42.7
Settlement and clearing fees	19.7	20.4
Consultancy and advisory fees	16.0	22.8
Bank card services fees	7.0	9.2
Acceptance and guarantee services fees	11.1	10.5
Finance leases services fees	16.2	25.5
Others[3]	3.9	5.7
Subtotal	**117.1**	**136.8**
Fee and commission expense		
Settlement and clearing fees	(3.4)	(2.9)
Bank card services fees	(7.4)[2]	(5.5)
Agency services fees[4]	(57.3)	–
Others[5]	(2.8)	(4.7)
Subtotal	**(70.9)**	**(13.1)**
Net fee and commission income	**46.2**	**123.7**

Notes:

(1) Prepared in accordance with IFRS 9.

(2) For the three months ended March 31, 2019, our fee and commission expense on bank card services fees was greater than our fee and commission income on bank card services fees primarily because we reduced or exempted some of the bank card-related fees from our customers, such as annual fees and ATM cross-bank withdrawal handling fees, etc., in order to attract more high-quality customers and at the same time implemented the national inclusive finance policy such as the Notice of the CBRC of the National Development and Reform Commission on the Cancellation and Suspension of Some Basic Financial Service Charges of Commercial Banks ([2017] No. 1250) (《國家發展改革委中國銀監會關於取消和暫停商業銀行部分基礎金融服務收費的通知發改價格規[2017]1250號》) (the "**Cancellation Service Charges Notice**"). Under the Cancellation Service Charges Notice, among other things, commercial banks are required by the PRC Government to remove personal cash withdrawal fee at the counter in some circumstances, exempt annual fees and account management fees for debit card holders, etc., in order to promote the national inclusive finance policy, which aimed at providing affordable banking products and services to low income population.

(3) Consisted primarily of income from payment and collection clearance accounts and safekeeping business.

(4) This was primarily related to agency services fees we paid to other banks and financial institutions relating to derivative transactions carried out by them on our behalf during the Track Record Period. We cooperate with other banks and financial institutions (the "**Cooperated Banks**") during the Track Record Period and offered structured deposits to our banking customers. As structured deposits are essentially a combination of a deposit and an investment product where the return depends on the trading performance of the derivatives linked to it, as part of our arrangements with the Cooperated Banks, the Cooperated Banks carried out the derivative transactions linked to these structured deposits on our behalf and as part of their services, we paid agency services fees to them. We obtained the qualification for trading derivatives in 2019 and started to carry out the derivative transactions by ourselves instead of relying on the Cooperated Banks in the second half of 2019 which caused a decrease in agency services fees paid to the Cooperated Banks.

For the three months ended March 31, 2019 and 2020, the aggregated structured deposits we received from our banking customers amounted to nil and RMB19.5 billion, respectively, and we mainly utilized the structured deposits as loans and advances to our customers and in our financial investments. For details of our interest income on loans and advances to customers and financial investment, please see "– Results of Operation for the Three Months Ended March 31, 2019 and 2020 – Interest Income from Loans and Advances to Customers" and "– Results of Operation for the Three Months Ended March 31, 2019 and 2020 – Interest Income from Financial Investment".

(5) Consisted primarily of custodial fee and other expenses.

Our net fee and commission income increased substantially by 167.7% from RMB46.2 million for the three months ended March 31, 2019 to RMB123.7 million for the three months ended March 31, 2020, primarily because of a 81.5% decrease in fee and commission expenses from RMB70.9 million for the three months ended March 31, 2019 to RMB13.1 million for the three months ended March 31, 2020 and an 16.8% increase in fee and commission income from RMB117.1 million for the three months ended March 31, 2019 to RMB136.8 million for the three months ended March 31, 2020. The decrease in fee and commission expenses was primarily due to a decrease in agency service fees we paid to Cooperated Banks. The increase in fee and commission income was mainly due to the increase in fee income of related financial leasing business as a result of the continuous growth of our financial leasing business.

Net Trading Gains/(Losses)

The following table sets for details of our net trading gains/(losses) for the periods indicated:

	For the three months ended March 31,	
	2019(1) (unaudited)	2020(1)
	(in millions of RMB)	
Net gains/(losses) from debt securities	64.2	(17.9)
Net gains from funds	0.5	1.5
Net losses from interbank deposits issued	–	–
Net losses from investment management products	(3.4)	(8.3)
Net gains from derivatives	–	3.3
Exchange (losses)/gains	(1.7)	8.7
Total	**59.6**	**(12.7)**

Note:

(1) Prepared in accordance with IFRS 9.

Our net trading amounted to a gain of RMB59.6 million for the three months ended March 31, 2019 and a loss of RMB12.7 million for the three months ended March 31, 2020. The decrease in our net trading gains was mainly due to the decrease in changes in the fair value of debt securities we invested as a result of the disposal of part of our debt securities portfolio in February 2020.

In addition, we recorded a net gain of RMB8.7 million for the first three months ended March 31, 2020 in foreign exchange mainly due to the appreciation of RMB against USD.

Net trading losses or gains mainly reflect fluctuations in market interest rates, foreign exchange rates and commodity prices.

Net Gains Arising from Investment Securities

The following table sets for details of our net gains arising from investment activities for the periods indicated:

	For the three months ended March 31,	
	2019[1] (unaudited)	2020[1]
	(in millions of RMB)	
Net gains of financial investments at fair value through profit or loss	313.7	258.1
Net gains of financial investments at fair value through other comprehensive income	39.4	138.7
Net gains of investment on derivatives	–	20.5
Total	**353.1**	**417.3**

Note:

(1) Prepared in accordance with IFRS 9.

Our net gains arising from investment securities increased from RMB353.1 million for the three months ended March 31, 2019 to RMB417.3 million for the three months ended March 31, 2020, which was due to the increase in the realized gains from our investment in debt securities and our transaction scale in debt securities. Our net gains of financial investments at fair value through other comprehensive income increased substantially by 252.0% from RMB39.4 million for the three months ended March 31, 2019 to RMB138.7 million for the three months ended March 31, 2020 primarily due to (i) increased in the transaction scale of financial investments measured at fair value through other comprehensive income during the first quarter of 2020; and (ii) we disposed part of our financial investments in debt securities and realized a substantial profits. In addition, we realized more gains from our investment in debt securities primarily as a result of the increase in transaction scale in debt securities for the three months ended March 31, 2019.

Other Components of Our Operating Income

Other components of our operating income consisted primarily of penalty income and government grants, and net gains from disposal of repossessed and self-used property and the equipment. Other components of our operating income amounted to RMB3.3 million and RMB5.2 million for the three months ended March 31, 2019 and 2020, respectively, representing 0.3% and 0.4% of our operating income, respectively.

Operating Expenses

The following table sets forth the principal components of our total operating expenses for the periods indicated:

	For the three months ended March 31,	
	2019 (unaudited)	2020
	(in millions of RMB)	
Staff costs	205.4	203.4
Depreciation and amortization	55.6	51.4
Taxes and surcharges	9.9	13.6
Rental and management expenses	3.9	3.8
Interest expense on lease liabilities	5.9	5.5
Other general and administrative expenses	85.6	80.6
Total operating expenses	**366.3**	**358.3**

Our operating expenses primarily consist of staff salary, depreciation and amortization, other general and administrative expenses and other operating expenses.

Our cost-to-income ratio (excluding taxes and surcharges) was 30.75% and 23.52% for the three months ended March 31, 2019 and 2020, respectively. The continued decrease in our cost-to-income ratio was primarily because of our cost control measures and the increase in our operating income.

Staff Costs

Staff costs were the largest component of our operating expenses, representing 56.1% and 56.8% of our total operating expenses for the three months ended March 31, 2019 and 2020, respectively.

The following table sets forth the components of our staff costs for the periods indicated:

	For the three months ended March 31,	
	2019 (unaudited)	2020
	(in millions of RMB)	
Salaries and allowances	163.0	167.6
Social insurance and annuity	21.3	14.0
Housing allowances	10.0	9.7
Staff welfare	1.1	1.1
Retirement benefits	4.4	5.2
Employee education expenses and labour union expenses	5.6	5.8
Total staff costs	**205.4**	**203.4**

Our staff costs decreased slightly by 1.0% from RMB205.4 million for the three months ended March 31, 2019 to RMB203.4 million for the three months ended March 31, 2020. The change in staff costs was mainly attributable to the PRC government periodically exempted some social insurance contributions during the COVID-19 outbreak.

The salaries and allowances were the largest component of our staff costs, representing 79.4% and 82.4% of our total staff costs for the three months ended March 31, 2019 and 2020, respectively. Salaries and allowances increased slightly by 2.8% from RMB163.0 million for the three months ended March 31, 2019 to RMB167.6 million for the three months ended March 31, 2020, mainly due to the increase in the number of employees and internal promotion of our employees in the first quarter of 2020.

Rental and Property Management Expenses

Our rental and property management expenses remained relatively stable for the three months ended March 31, 2019 and 2020. Our rental and property management fees decreased slightly by 2.6% from RMB3.9 million for the three months ended March 31, 2019 to RMB3.8 million for the three months ended March 31, 2020. Please also see subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies" for details of the impact of IFRS 16 on our operating results.

Depreciation and Amortization

Our depreciation and amortization consists primarily of depreciation of our property and equipment and amortization of renovation expenses and software development expenses. Our depreciation and amortization remained relatively stable for the three months ended March 31, 2019 and 2020. Our depreciation and amortization decreased slightly by 7.6% from RMB55.6 million for the three months ended March 31, 2019 to RMB51.4 million for the three months ended March 31, 2020, mainly because the scale of newly added assets as of March 31, 2020 was smaller than that of the same period in 2019.

Taxes and Surcharges

Our taxes and surcharges increased by 37.4% from RMB9.9 million for the three months ended March 31, 2019 to RMB13.6 million for the three months ended March 31, 2020, mainly due to the increase in various surcharges from the increase in the amount of VAT paid.

Other General and Administrative Expenses

Our other general and administrative expenses primarily consist of business promotion expenses, electronic equipment operating costs, security expenses and insurance premiums. Other general and administrative expenses decreased slightly by 5.8% from RMB85.6 million for the three months ended March 31, 2019 to RMB80.6 million for the three months ended March 31, 2020, primarily reflecting our efforts to control other general and administrative expenses.

Impairment Losses on Assets

The following table sets forth the principal components of our impairment losses on assets for the periods indicated:

	For the three months ended March 31,	
	2019[(1)] (unaudited)	2020[(1)]
	(in millions of RMB)	
Impairment losses/(reversals) on assets:		
Financial assets held under resale agreements	1.2	(3.6)
Loans and advances to customers	317.3	530.0
Financial investments	12.1	67.2
Finance lease receivables	12.3	32.1
Credit commitments	(1.3)	4.2
Deposits with banks and other financial institutions	0.0	0.0
Placements with banks and other financial institutions	0.0	0.0
Others	4.7	4.4
Total	**346.3**	**634.3**

Note:

(1) Prepared in accordance with IFRS 9.

Our impairment losses on assets increased by 83.2% from RMB346.3 million for the three months ended March 31, 2019 to RMB634.3 million for the three months ended March 31, 2020, mainly because (i) our impairment losses on loans and advances to customers increased by 67.0% from RMB317.3 million for the three months ended March 31, 2019 to RMB530.0 million for the three months ended March 31, 2020, primarily due to the corresponding increase in the allowance for impairment of loans as a result of the increase in the scale of loans extended. In addition, due to the uncertainty brought by the impact of the economic slowdown in the PRC during the first three months of 2020, we took the prudent approach in adjusting our forward-looking factors in the expected credit loss model, which caused an increase in the impairment losses on loans and advances; and (ii) our impairment losses on financial investments increased significantly by 455.4% from RMB12.1 million for the three months ended March 31, 2019 to RMB67.2 million for the three months ended March 31, 2020, primarily due to the increase in the provision for impairment losses of financial investments as a result of the changes of the credit ratings of some of our debt securities investments brought by the operational difficulties of certain corporate issuers. The operational difficulties of such corporate issuers were mainly caused by the adverse impacts of the COVID-19 outbreak and PRC's economic slowdown in the first three months ended March 31, 2020.

Income Tax Expense

The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax for the periods indicated:

	For the three months ended March 31,	
	2019[(2)] (unaudited)	2020[(2)]
	(in millions of RMB)	
Profit before tax	446.5	472.5
Income tax calculated at applicable statutory tax rate	111.6	118.1
Non-deductible expenses	0.5	0.4
Non-taxable income[(1)]	(41.7)	(37.8)
Income tax expense	**70.4**	**80.7**

Notes:

(1) Non-taxable income mainly represents interest income from PRC government bonds, which is non-taxable in accordance with PRC tax regulations.

(2) Prepared in accordance with IFRS 9.

Our income tax increased by 14.6% from RMB70.4 million for the three months ended March 31, 2019 to RMB80.7 million for the three months ended March 31, 2020, mainly due to the increase in the profit before tax for the three months ended March 31, 2020.

Our effective income tax rate was 15.8% and 17.1% for the three months ended March 31, 2019 and 2020, respectively. Our effective income tax rate increased for the three months ended March 31, 2019 to the three months ended March 31, 2020, mainly because the bonds issued by the PRC Government had a lesser proportion in the financial asset allocation for the first three months ended March 31, 2020 as compared to the first three months ended March 31, 2019. As the interest income from the bonds issued by the PRC Government was tax-free in nature and at contributed to a lesser portion to the income before tax for the first three months ended March 31, 2020, which led to the slight increase in the income tax rate for the first three months ended March 31, 2020 resulted in the increase in the effective income tax rate.

The following table sets forth the components of our income tax expenses for the periods indicated:

	For the three months ended March 31,	
	2019[1] (unaudited)	2020[1]
	(in millions of RMB)	
Current income tax — PRC enterprise income tax	50.0	205.5
Deferred income tax	20.4	(124.8)
Total income tax expense	**70.4**	**80.7**

Note:

(1) Prepared in accordance with IFRS 9.

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 4.2% from RMB376.1 million for the three months ended March 31, 2019 to RMB391.8 million for the three months ended March 31, 2020.

Other Comprehensive Income/(Loss)

According to IFRS 9 which we have adopted since January 1, 2018, financial assets measured at fair value through other comprehensive income consist of debt securities, certificates of interbank deposit, SPV Investment and discounted bills, which were originally classified as (i) available-for-sale financial assets; and (ii) loans and advances to customers under IAS 39.

Changes in Fair Value and Provision for Impairment Losses of Financial Assets Measured at Fair Value through Other Comprehensive Income

According to IFRS 9 which we have adopted since January 1, 2018, financial assets measured at fair value through other comprehensive income consist of debt securities, certificates of interbank deposit, SPV Investment and discounted bills, which were originally classified as (i) available-for-sale financial assets; and (ii) loans and advances to customers under IAS 39. We recorded a fair value gain of RMB313.8 million in financial assets measured at fair value through other comprehensive income for the three months ended March 31, 2020. We incurred impairment losses of RMB4.8 million on such financial assets for the three months ended March 31, 2020 in accordance with the expected credit loss model under IFRS 9.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019

We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. According to IFRS 9, our net profit in 2018 amounted to RMB1,017.3 million, which was higher than the results for the same year should we apply IAS 39. This difference is mainly attributed to a decrease in the impairment losses on assets due to the application of the new expected credit loss impairment model under IFRS 9. Our net profit in 2019 amounted to RMB1,523.7 million, which was less than the results for the same year should we apply IAS 39. This difference is mainly attributed to an increase in the impairment losses on assets due to the application of the new expected credit loss impairment model under IFRS 9. For details on the differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Assuming we still apply IAS 39 in 2018, our net profit in 2018 would be RMB1,008.5 million, representing a decrease of 37.1% from RMB1,602.8 million in 2017, primarily attributable to (i) our results of operations have been affected due to the impact of PRC's economic growth slowdown and industrial restructuring, and (ii) we began to classify loans overdue more than 90 days as NPLs in 2018, under a new standard CBIRC set in 2017 for all banks to classify all loans overdue more than 90 days as NPLs by the end of 2018, thus affecting our results of operations for that year. Our net profit increased by 49.8% from RMB1,017.3 million in 2018 to RMB1,523.7 million in 2019, primarily due to our continued development of corporate and retail banking business, resulting in an increase in net loans and advances to customers, as well as an increase in both net interest income and net fees and commissions.

Net Interest Income

Net interest income was the largest component of our operating income, representing 93.3%, 49.6% and 66.8% of our operating income in 2017, 2018 and 2019, respectively.

The following table sets forth our interest income, interest expense and net interest income for the years indicated:

	For the years ended December 31,		
	2017[(1)]	2018[(2)]	2019[(2)]
	(in millions of RMB)		
Interest income	8,385.9	7,259.8	8,957.6
Interest expense	(4,741.6)	(5,357.3)	(5,651.4)
Net interest income	**3,644.3**	**1,902.5**	**3,306.2**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

We have adopted IFRS 9 from January 1, 2018 to replace IAS 39. According to IFRS 9, our net interest income in 2018 and 2019 amounted to RMB1,902.5 million and RMB3,306.2 million, which were less than the results for the same years should we apply IAS 39, mainly because the interest income from financial investments measured at fair value through profit or loss under IAS 39 was recognized in the "net gains arising from investment securities" rather than "interest income" according to IFRS 9. For details on the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Assuming we still apply IAS 39 in 2018, our net interest income in 2018 would amount to RMB3,552.4 million, representing a slight decrease of 2.5% from RMB3,644.3 million in 2017, primarily attributable to a 13.0% increase in interest expenses during the same period, which was partially offset by a 6.2% increase in interest income.

The increase in interest expenses were primarily due to the (i) increases in the average balance of our total interest bearing liabilities from RMB170,468.0 million in 2017 to RMB182,833.7 million in 2018 as a result of the issuance of certificates of interbank deposit to replenish our working capital purposes. Please see the section headed "— Capital Resources — Debt — Debt Securities Issued" for details of our certificates of interbank deposit issued during the Track Record Period; and (ii) an increase of average cost of our total interest bearing liabilities from 2.78% in 2017 to 2.93% in 2018 due to the increase in the market interest rate.

The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yields on assets or related average cost on liabilities for the years indicated:

	For the year ended December 31,											
	2017[1]			2018[1] (unaudited)			2018[2]			2019[2]		
	Average balance	Interest income/ expense	Average yield/ cost[3]	Average balance	Interest income/ expense	Average yield/ cost[3]	Average balance	Interest income/ expense	Average yield/ cost[3]	Average balance	Interest income/ expense	Average yield/ cost[3]
	(in millions of RMB, except percentages)											
Interest-earning assets												
Loans and advances to customers	64,433.9	3,444.7	5.35%	71,603.0	3,663.8	5.12%	71,603.0	3,663.8	5.12%	87,840.8	4,665.0	5.31%
Financial investments[4]	87,593.6	3,998.3	4.56%	91,337.4	4,233.5	4.64%	60,044.2	2,583.6	4.30%	70,251.4	3,114.8	4.43%
Finance lease receivables	6,621.0	370.6	5.60%	9,892.4	594.5	6.01%	9,892.4	594.5	6.01%	13,366.2	869.6	6.51%
Financial assets held under resale agreements	6,625.4	257.6	3.89%	3,050.3	104.1	3.41%	3,050.3	104.1	3.41%	1,855.8	44.0	2.37%
Deposits with the central bank[5]	17,586.7	267.1	1.52%	16,816.6	250.6	1.49%	16,816.6	250.6	1.49%	15,301.4	224.4	1.47%
Deposits with banks and other financial institutions	2,191.0	30.4	1.39%	1,939.9	29.1	1.50%	1,939.9	29.1	1.50%	662.1	12.5	1.89%
Placements with banks and other financial institutions	830.1	17.2	2.07%	1,044.3	34.1	3.27%	1,044.3	34.1	3.27%	843.8	27.3	3.24%
Total interest-earning assets	**185,881.7**	**8,385.9**	**4.51%**	**195,683.9**	**8,909.7**	**4.55%**	**164,390.7**	**7,259.8**	**4.42%**	**190,121.5**	**8,957.6**	**4.71%**
Interest-bearing liabilities												
Deposits from customers	111,118.1	2,291.0	2.06%	115,168.4	2,232.2	1.94%	115,168.4	2,232.2	1.94%	131,264.3	3,202.9	2.44%
Deposits from banks and other financial institutions	4,558.2	163.0	3.58%	5,415.9	243.5	4.50%	5,415.9	243.5	4.50%	5,926.8	208.5	3.52%
Placements from banks and other financial institutions	4,932.0	232.0	4.70%	7,777.6	363.5	4.67%	7,777.6	363.5	4.67%	10,520.0	462.4	4.40%
Borrowing from the central bank	2,220.8	70.6	3.18%	2,512.0	77.2	3.07%	2,512.0	77.2	3.07%	3,167.9	102.0	3.22%
Financial assets sold under repurchase agreements	20,082.5	741.5	3.69%	9,310.6	352.0	3.78%	9,310.6	352.0	3.78%	4,720.7	113.7	2.41%
Discounted bills	930.0	41.9	4.51%	678.3	29.9	4.41%	678.3	29.9	4.41%	4,485.8	150.7	3.36%
Debt securities issued[6]	26,626.4	1,201.6	4.51%	41,970.9	2,059.0	4.91%	41,970.9	2,059.0	4.91%	36,225.9	1,411.2	3.90%
Total interest-bearing liabilities	**170,468.0**	**4,741.6**	**2.78%**	**182,833.7**	**5,357.3**	**2.93%**	**182,833.7**	**5,357.3**	**2.93%**	**196,311.4**	**5,651.4**	**2.88%**
Net interest income		**3,644.3**			**3,552.4**			**1,902.5**			**3,306.2**	
Net interest spread[7]			**1.73%**			**1.62%**			**1.49%**			**1.83%**
Net interest margin[8]			**1.96%**			**1.82%**			**1.16%**			**1.74%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

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

(4) In 2017, financial investments consists of financial investments measured at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables. Starting from January 1, 2018, according to IFRS 9, financial investments consists of financial investments measured at amortized costs, financial investments measured at fair value through other comprehensive income and financial investments measured at fair value through profit or loss. For details, please see “Assets and Liabilities — Assets — Financial Investments”.

(5) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(6) Consisted of certificates of interbank deposit, financial bonds and tier-two capital debts issued by us.

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

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

The following table sets forth the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate for the years indicated. Changes in volume are measured by changes in the average balances, and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in volume.

	2018[1] (unaudited) vs. 2017[1]		
	Increase/(decrease) due to		Net Increase/ (decrease)[4]
	Volume[2]	Rate[3]	
	(in millions of RMB)		
Assets			
Loans and advances to customers	366.8	(147.7)	219.1
Financial investments	173.5	61.7	235.2
Deposits with the central bank[5]	(11.5)	(5.0)	(16.5)
Deposits with banks and other financial institutions	(3.8)	2.5	(1.3)
Placements with banks and other financial institutions	7.0	9.9	16.9
Financial lease receivables	196.6	27.3	223.9
Financial assets held under resale agreements	(122.0)	(31.5)	(153.5)
Changes in interest income	**606.6**	**(82.8)**	**523.8**
Liabilities			
Deposits from customers	78.5	(137.3)	(58.8)
Deposits from banks and other financial institutions	38.6	41.9	80.5
Placements from banks and other financial institutions	133.0	(1.5)	131.5
Borrowing from the central bank	9.0	(2.4)	6.6
Financial assets sold under repurchase agreements	(407.2)	17.7	(389.5)
Discounted bills	(11.1)	(0.9)	(12.0)
Debt securities issued[6]	752.8	104.6	857.4
Changes in interest expense	**593.6**	**22.1**	**615.7**
Changes in net interest income	**13.0**	**(104.9)**	**(91.9)**

Notes:

(1) Prepared in accordance with IAS 39.

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

(3) Represented 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.

(4) Represented interest income/expense for the year minus interest income/expense for the previous year.

(5) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(6) Consisted of certificates of interbank deposits, financial bonds, and tier-two capital debts issued by us.

	2018[2] vs. 2017[1]		
	Increase/(decrease) due to		Net Increase/ (decrease)[5]
	Volume[3]	Rate[4]	
	(in millions of RMB)		
Assets			
Loans and advances to customers	366.8	(147.7)	219.1
Financial investments	(1,185.4)	(229.3)	(1,414.7)
Deposits with the central bank[6]	(11.5)	(5.0)	(16.5)
Deposits with banks and other financial institutions	(3.8)	2.5	(1.3)
Placements with banks and other financial institutions	7.0	9.9	16.9
Finance lease receivables	196.6	27.3	223.9
Financial assets held under resale agreements	(122.0)	(31.5)	(153.5)
Changes in interest income	**(752.3)**	**(373.8)**	**(1,126.1)**
Liabilities			
Deposits from customers	78.5	(137.3)	(58.8)
Deposits from banks and other financial institutions	38.6	41.9	80.5
Placements from banks and other financial institutions	133.0	(1.5)	131.5
Borrowing from the central bank	9.0	(2.4)	6.6
Financial assets sold under repurchase agreements	(407.2)	17.7	(389.5)
Discounted bills	(11.1)	(0.9)	(12.0)
Debt securities issued[7]	752.8	104.6	857.4
Changes in interest expense	**593.6**	**22.1**	**615.7**
Changes in net interest income	**(1,345.9)**	**(395.9)**	**(1,741.8)**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

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

(4) Represented 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.

(5) Represented interest income/expense for the year minus interest income/expense for the previous year.

(6) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(7) Consisted of certificates of interbank deposits, financial bonds, and tier-two capital debts issued by us.

	2019(1) vs. 2018(1)		
	Increase/(decrease) due to		Net Increase/ (decrease)(4)
	Volume(2)	Rate(3)	
	(in millions of RMB)		
Assets			
Loans and advances to customers	862.4	138.8	1,001.2
Financial investments	452.6	78.6	531.2
Deposits with the central bank(5)	(22.2)	(4.0)	(26.2)
Deposits with banks and other financial institutions	(24.2)	7.6	(16.6)
Placements with banks and other financial institutions	(6.5)	(0.3)	(6.8)
Finance lease receivables	226.0	49.1	275.1
Financial assets held under resale agreements	(28.3)	(31.8)	(60.1)
Changes in interest income	**1,459.8**	**238.0**	**1,697.8**
Liabilities			
Deposits from customers	392.7	578.0	970.7
Deposits from banks and other financial institutions	18.0	(53.0)	(35.0)
Placements from banks and other financial institutions	120.6	(21.7)	98.9
Borrowing from the central bank	21.2	3.6	24.8
Financial assets sold under repurchase agreements	(110.5)	(127.8)	(238.3)
Discounted bills	127.9	(7.1)	120.8
Debt securities issued(6)	(223.8)	(424.0)	(647.8)
Changes in interest expense	**346.1**	**(52.0)**	**294.1**
Changes in net interest income	**1,113.7**	**290.0**	**1,403.7**

Notes:

(1) Prepared in accordance with IFRS 9.

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

(3) Represented 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.

(4) Represented interest income/expense for the year minus interest income/expense for the previous year.

(5) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(6) Consisted of certificates of interbank deposits, financial bonds, and tier-two capital debts issued by us.

Interest Income

We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. According to IFRS 9, our interest income amounted to RMB7,259.8 million and RMB8,957.6 million in 2018 and 2019, which were less than the results in the same years should we apply IAS 39, primarily because the interest income from financial investments measured at fair value through profit or loss under IAS 39 was recognized in the "net gains arising from investment securities" rather than "interest income" according to IFRS 9. For details on differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Our interest income increased by 23.4% from RMB7,259.8 million in 2018 to RMB8,957.6 million in 2019, primarily due to (i) an increase in the average balance of our interest-earning assets from RMB164,390.7 million in 2018 to RMB190,121.5 million in 2019, and an increase in the average yield on our interest-earning assets from 4.42% in 2018 to 4.71% in 2019. The increase in the average balance of our interest-earning assets was primarily attributable to the increase in average balance of loans and advances to customers. The increase in the average yield on our interest-earning assets mainly resulted from the increased average yield on loans and advances to customers and increased in average yield on financial investment.

Assuming we still apply IAS 39 in 2018, our interest income in 2018 would amount to RMB8,909.7 million, representing a 6.2% increase from RMB8,385.9 million in 2017, mainly attributed to (i) an increase in the average balance of our interest-earning assets from RMB185,881.7 million in 2017 to RMB195,683.9 million in 2018, and an increase in the average yield on our interest-earning assets from 4.51% in 2017 to 4.55% in 2018. The increase in the average balance of our interest-earning assets was primarily attributable to the increase in average balance of loans and advances to customers. The increase in the average yield on our interest-earning assets was mainly due to the increased average yield on financial investments and placements with banks and other financial institutions.

The following table sets forth a breakdown of our interest income for the years indicated:

	For the year ended December 31,					
	2017(1)		2018(2)		2019(2)	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Interest income from						
Loans and advances to customers						
Corporate Loans	2,749.3	32.8%	2,681.7	36.9%	3,232.2	36.1%
Personal loans	491.2	5.9%	715.4	9.9%	1,022.5	11.4%
Discounted bills	204.2	2.4%	266.7	3.7%	410.3	4.6%
Subtotal	**3,444.7**	**41.1%**	**3,663.8**	**50.5%**	**4,665.0**	**52.1%**
Financial investments	3,998.3	47.7%	2,583.6	35.6%	3,114.8	34.8%
Deposits with banks and other financial institutions	30.4	0.4%	29.1	0.4%	12.5	0.1%
Placements with banks and other financial institutions	17.2	0.2%	34.1	0.5%	27.3	0.3%
Financial assets held under resale agreements	257.6	3.0%	104.1	1.4%	44.0	0.5%
Finance lease receivables	370.6	4.4%	594.5	8.2%	869.6	9.7%
Deposits with the central bank	267.1	3.2%	250.6	3.4%	224.4	2.5%
Total interest income	**8,385.9**	**100.0%**	**7,259.8**	**100.0%**	**8,957.6**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

Interest Income from Loans and Advances to Customers

Our interest income from loans and advances to customers represented 41.1%, 50.5% and 52.1% of our interest income in 2017, 2018 and 2019, respectively.

The following table sets forth the average balance, interest income and average yield for each component of our loans and advances to customers for the years indicated:

	For the year ended December 31,								
	2017(1)			2018(2)			2019(2)		
	Average balance	Interest income	Average yield(3)	Average balance	Interest income	Average yield(3)	Average balance	Interest income	Average yield(3)
	(in millions of RMB, except percentages)								
Corporate loans	51,328.6	2,749.3	5.36%	53,451.5	2,681.7	5.02%	62,253.8	3,232.2	5.19%
Personal loans	9,362.5	491.2	5.25%	12,990.7	715.4	5.51%	17,747.4	1,022.5	5.76%
Discounted bills	3,742.8	204.2	5.46%	5,160.8	266.7	5.17%	7,839.6	410.3	5.23%
Total loans and advances to customers	**64,433.9**	**3,444.7**	**5.35%**	**71,603.0**	**3,663.8**	**5.12%**	**87,840.8**	**4,665.0**	**5.31%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

(3) Calculated by dividing interest income by average balance.

Our interest income from loans and advances to customers increased by 6.4% from RMB3,444.7 million in 2017 to RMB3,663.8 million in 2018, primarily due to a 11.1% increase in the average balance of loans and advances to customers from RMB64,433.9 million in 2017 to RMB71,603.0 million in 2018, which is partially offset by a decrease in the average yield on loans and advances to customers from 5.35% in 2017 to 5.12% in 2018. The increase in the average balance of loans and advances to customers was primarily due to the overall increase of our loan business. The decrease in the average yield on loans and advances to customers was primarily attributable to the decrease in average yields on corporate loans and discounted bills, which was partially offset by the increase in average yields on personal loans.

Our interest income from loans and advances to customers increased by 27.3% from RMB3,663.8 million in 2018 to RMB4,665.0 million in 2019, primarily due to (i) a 22.7% increase in the average balance of loans and advances to customers from RMB71,603.0 million in 2018 to RMB87,840.8 million in 2019, and (ii) an increase in the average yield on loans and advances to customers from 5.12% in 2018 to 5.31% in 2019. The increase in the average balance of loans and advances to customers was primarily due to the overall increase of our loan business as a result of the continuous development of corporate and retail banking. The increase in the average yield on loans and advances to customers was primarily attributable to the increase in the average yields on corporate loans and personal loans as a result of our strengthening on the interest rates and pricing management.

Interest income from corporate loans was the largest component of our interest income from loans and advances to customers, representing 79.8%, 73.2% and 69.3% of our total interest income from loans and advances to customers in 2017, 2018 and 2019, respectively.

Corporate Loans

Our interest income from corporate loans decreased by 2.5% from RMB2,749.3 million in 2017 to RMB2,681.7 million in 2018, primarily, because the average yield of our corporate loans decreased from 5.36% in 2017 to 5.02% in 2018 which is partially offset by an increase in our average balance of corporate loans from RMB51,328.6 million in 2017 to RMB53,451.5 million in 2018. The decrease in the average yield of our corporate loans was primarily attributable to (i) our adjustment of the loan portfolio structure and proactive placement of more loans with lower yields to attract and retain more customers on the condition that the risks are controllable; and (ii) the continuous impact of the interest rate liberalization. The increase in the average balance of our corporate loans was primarily due to our continuous development of corporate business and our continued efforts to increase the placements of corporate loans.

Our interest income from corporate loans increased by 20.5% from RMB2,681.7 million in 2018 to RMB3,232.2 million in 2019, primarily due to (i) a 16.5% increase in the average balance of corporate loans from RMB53,451.5 million in 2018 to RMB62,253.8 million in 2019; and (ii) an increase in the average yield on corporate loans from 5.02% in 2018 to 5.19% in 2019. The increase in the average balance of corporate loans was primarily due to the continuous development of the corporate business, particularly an increase in the loans for leasing and commercial service. The increase in the average yield on corporate loans was primarily attributable to (i) our strengthening on interest rates and pricing management; and (ii) our proactive placement of loans with lower yield in 2018 in order to attract and retain quality customers.

Personal Loans

Our interest income from personal loans increased by 45.6% from RMB491.2 million in 2017 to RMB715.4 million in 2018, primarily due to (i) a 38.8% increase in the average balance of personal loans from RMB9,362.5 million in 2017 to RMB12,990.7 million in 2018; and (ii) an increase in the average yield on personal loans from 5.25% in 2017 to 5.51% in 2018. The increase in the average balance of our personal loans was primarily attributable to our efforts to develop our personal loans business by enriching products, widening the access to customers and enhancing the marketing efforts. The increase in the average yield of our personal loans was primarily attributable to our continuous efforts to optimize personal loan portfolios, and allocating more resources to personal business loans with relatively high yields while keeping our risks exposure under control.

Our interest income from personal loans increased by 42.9% from RMB715.4 million in 2018 to RMB1,022.5 million in 2019, primarily due to (i) a 36.6% increase in the average balance of personal loans from RMB12,990.7 million in 2018 to RMB17,747.4 million in 2019; and (ii) an increase in the average yield on personal loans from 5.51% in 2018 to 5.76% in 2019. The increase in the average balance of our personal loans was primarily attributable to our continuous efforts to develop personal loans business, and our increase in placements of inclusive loans, especially personal business loans. The increase in the average yield on our personal loans was primarily because we continued to optimize the structure of personal loan portfolios to allocate more resources to personal business loans which had relatively high yields, while maintaining risk under control.

Discounted Bills

Our interest income from discounted bills increased by 30.6% from RMB204.2 million in 2017 to RMB266.7 million in 2018, primarily due to the average balance of our discounted bills increased from RMB3,742.8 million in 2017 to RMB5,160.8 million in 2018 which is partially offset by a decrease in average yield of our discounted bills from 5.46% in 2017 to 5.17% in 2018. The increase in the average balance of our discounted bills was mainly because we adjusted our asset structure and improved the allocation of bill assets with higher yields and liquidity. The decrease in the average yield on our discounted bills was due to the decline in the market interest rate of discounted bills.

Our interest income from discounted bills increased by 53.8% from RMB266.7 million in 2018 to RMB410.3 million in 2019, primarily due to (i) a 51.9% increase in the average balance of discounted bills from RMB5,160.8 million in 2018 to RMB7,839.6 million in 2019, and (ii) an increase in the average yield on discounted bills from 5.17% in 2018 to 5.23% in 2019. The increase in the average balance of discounted bills was primarily due to our increase in the scale of discounted bills by considering various factors such as the market rates, discounted bills with relatively low risks and high liquidity in 2019. The increase in the average yield on discounted bills was primarily attributable to the accelerated turnover of our bill assets in 2019.

Interest Income from Financial Investments

We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. According to IFRS 9, our interest income from financial investments in 2018 and 2019 amounted to RMB2,583.6 million and RMB3,114.8 million, which were less than the results for the same years should we apply IAS 39, primarily because the interest income from financial investments measured at fair value through profit or loss under IAS 39 was recognized in the "net gains from investment securities" rather than "interest income" according to IFRS 9. For details on differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Our interest income from financial investments increased by 20.6% from RMB2,583.6 million in 2018 to RMB3,114.8 million in 2019, primarily due to (i) a slight increase in the average yield on our financial investments from 4.30% to 4.43%; and (ii) an increase of 17.0% in the average balance of the financial investments from RMB60,044.2 million to RMB70,251.4 million. The increase in the average yield on our financial investments is primarily due to our allocation of more funds to financial investments which have high yields (particularly the investment in credit based trust plans). The increase in our average balance was primarily due to our increased investments in financial investments of different types in order to enrich our asset portfolios and at the same time obtained higher investment returns, in order to address the challenges from interest rate liberalization.

Assuming we still apply IAS 39 in 2018, our interest income from financial investments would amount to RMB4,233.5 million in 2018, representing a 5.9% increase from RMB3,998.3 million in 2017, primarily because of (i) an increase in the average yield on our financial investments from 4.56% to 4.64%; and (ii) an increase of 4.3% in the average balance of the financial investments from RMB87,593.6 million to RMB91,337.4 million. The increase in the average yield on our financial investments is primarily due to our allocation of more funds to financial investments which have high yields (particularly the investment in credit based trust plans). The increase in our average balance is primarily due to an increase in debt securities investment.

The following table sets forth a breakdown of our interest income from our financial investments as well as their respective average yields for the years indicated:

	For the year ended December 31,											
	2017[1]			2018[1] (unaudited)			2018[2]			2019[2]		
	Average balance	Interest income	Average yield[3]	Average balance	Interest income	Average yield[3]	Average balance	Interest income	Average yield[3]	Average balance	Interest income	Average yield[3]
	(in millions of RMB, except percentages)											
Debt securities investment	44,038.1	1,713.2	3.89%	51,147.5	2,075.7	4.06%	41,307.2	1,597.4	3.87%	47,756.1	1,913.1	4.01%
SPV Investment	42,903.4	2,258.5	5.26%	38,004.1	2,061.5	5.42%	18,503.7	977.7	5.28%	19,345.1	1,092.7	5.65%
Other financial investment[4]	652.1	26.6	4.08%	2,185.8	96.3	4.41%	233.3	8.5	3.64%	3,150.2	109.0	3.46%
Total	**87,593.6**	**3,998.3**	**4.56%**	**91,337.4**	**4,233.5**	**4.64%**	**60,044.2**	**2,583.6**	**4.30%**	**70,251.4**	**3,114.8**	**4.43%**

Notes:

(1) Prepared according to IAS 39.

(2) Prepared according to IFRS 9.

(3) Calculated by dividing (i) our interest income from the corresponding assets in the year, by (ii) the average balance of these assets.

(4) Consisted primarily of certificates of interbank deposit.

According to IFRS 9 which we adopted since January 1, 2018, the average yield on our debt securities and SPV Investment in 2018 amounted to 3.87% and 5.28%, respectively. The aforementioned average yield under IFRS 9 differs from the result for same year should we apply IAS 39, i.e. average yield on our debt securities and SPV Investment in 2018 amounted to 4.06% and 5.42%, respectively, mainly because the interest income from financial investments measured at fair value through profit or loss under IFRS 9 was recognized in "net gains from investment securities" rather than "interest income" in accordance with IAS 39, and such financial investments were no longer considered as interest-earning assets since January 1, 2018. For details on differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

In 2017, 2018 and 2019, our interest income from SPV Investment represented 56.5%, 37.8% and 35.1%, respectively, of total interest income from our financial investment. The average yield on our SPV Investment was 5.26%, 5.28% and 5.65% in 2017, 2018 and 2019, respectively. The continuous increase in the average yield on our SPV Investment from 2017 to 2019 was primarily because we prudently opted for investments in credit based trust plans with higher yield while maintaining stringent risk control in accordance with our business strategy and relevant regulatory policies such as the Measures for the Administration of the Large Risk Exposures of Commercial Banks (《商業銀行大額風險暴露管理辦法》). For details, please see "Supervision and Regulation — Risk Management — Large Risk Exposure Management".

For our debt securities investment, in 2017, 2018 and 2019, our interest income from debt securities investment represented 42.8%, 61.8% and 61.4%, respectively, of total interest income from our financial investment. The average yield was 3.89%, 3.87% and 4.01% in 2017, 2018 and 2019, respectively. From 2017 to 2019, the average yield on our debt securities investment increased slightly from 3.89% in 2017 to 4.01% in 2019, primarily due to the increase of investment in debt securities with high yield.

Financial Lease Receivables

Financial lease receivables include interest income from our subsidiary Shandong Tongda Financial Leasing Co., Ltd. which was established in June 2016. Our financial leasing solutions are primarily in the form of direct lease and leaseback, and under certain circumstances, we also provide tailored financial leasing solutions to accommodate various business needs of our clients. In addition to traditional financial leasing solutions, we provide other services such as operating leases, investment in fixed securities income, interbank lending, sale and disposal of leased properties. For details of Tongda Financial Leasing Co., Ltd., please see "Business — Financial Leasing Company".

Our interest income from financial lease receivables represented 4.4%, 8.2% and 9.7% of our interest income in 2017, 2018 and 2019, respectively. The continuous increase in interest income from our financial lease receivables was primarily due to (i) the continued increase of the average balance of our financial lease receivables from RMB6,621.0 million in 2017 to

RMB9,892.4 million in 2018, which further increased to RMB13,366.2 million in 2019; and (ii) the continued increase in the average yield on financial lease receivables from 5.60% in 2017 to 6.01% in 2018, which further increased to 6.51% in 2019. The increase in the average balance on financial lease receivables was mainly due to the growth of our new financial leasing business as well as our enhanced capability to expand the financial leasing business outside Shandong Province while the increase in the average yield on financial lease receivables was primarily due to the continued increase in the market interest rate for financial leases.

Interest Income from Financial Assets Held under Resale Agreements

Interest income from financial assets held under resale agreements represented 3.0%, 1.4% and 0.5% of our interest income in 2017, 2018 and 2019, respectively.

Our interest income from financial assets held under resale agreements decreased by 59.6% from RMB257.6 million in 2017 to RMB104.1 million in 2018 and further decreased by 57.7% to RMB44.0 million in 2019, primarily due to (i) a decrease in the average balance of our financial assets held under resale agreements from RMB6,625.4 million in 2017 to RMB3,050.3 million in 2018, which further decreased by 39.2% to RMB1,855.8 million in 2019; and (ii) a decrease in the average yield on our financial assets held under resale agreements from 3.89% in 2017 to 3.41% in 2018, which further decreased to 2.37% in 2019. The continuous decrease in the average balance of our financial assets held under resale agreements was primarily because we proactively adjusted our asset allocation strategy and at the same time reduced the scale of financial assets held under resale agreements as we adopt cautious risk control measures in accordance with regulatory development and risk management policies, while the continuous decrease in the average yield on our financial assets held under resale agreements was primarily due to the improvement on market liquidity in 2019, which resulted in a decline in the money market rate.

Interest Income from Deposits with Banks and Other Financial Institutions

Interest income from deposits with banks and other financial institutions represented 0.4%, 0.4% and 0.1% of our interest income in 2017, 2018 and 2019, respectively.

Our interest income from deposits with banks and other financial institutions decreased slightly by 4.3% from RMB30.4 million in 2017 to RMB29.1 million in 2018, and further decreased by 57.0% to RMB12.5 million in 2019, primarily due to a decrease in the average balance of our deposits with banks and other financial institutions from RMB2,191.0 million in 2017 to RMB1,939.9 million in 2018 and further decreased to RMB662.1 million in 2019, which was partially offset by an increase in the average yield on our deposits with banks and other financial institutions from 1.39% in 2017 to 1.50% in 2018 and further increased to 1.89% in 2019. The decrease in the average balance of our deposits with banks and other financial institutions was primarily due to our increased investment in products with high yield and the decrease in deposits with banks and other financial institutions. The increase in the average yield on our deposits with banks and other financial institutions was primarily attributable to the increase in the proportion of time deposits with banks and other financial institutions.

Interest Income from Placements with Banks and Other Financial Institutions

Interest income from placements with banks and other financial institutions represented 0.2%, 0.5% and 0.3% of our interest income in 2017, 2018 and 2019, respectively.

Our interest income from placements with banks and other financial institutions increased significantly from RMB17.2 million in 2017 to RMB34.1 million in 2018, primarily due to an increase in the average balance of our placements with banks and other financial institutions by 25.8% from RMB830.1 million in 2017 to RMB1,044.3 million in 2018 and an increase in the average yield on our placements with banks and other financial institutions from 2.07% in 2017 to 3.27% in 2018.

Our interest income from placements with banks and other financial institutions decreased by 19.9% from RMB34.1 million in 2018 to RMB27.3 million in 2019, primarily due to (i) a decrease in the average balance of our placements with banks and other financial institutions from RMB1,044.3 million in 2018 to RMB843.8 million in 2019 as we started to focus placements with non-deposit receiving financial institutions regulated by the CBIRC such as financial leasing company, which generally can achieve higher interest income as compared to placements with bank and other financial institutions; and (ii) the average yield on our placements with banks and other financial institutions decreased slightly from 3.27% in 2018 to 3.24% in 2019.

Interest Income from Deposits with the Central Bank

Our deposits with the central bank consist primarily of statutory deposit reserves and surplus deposit reserves with the PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at the PBoC, calculated as a percentage of the balance of our overall deposits from customers. Surplus deposit reserves are deposits with the PBoC in excess of statutory deposit reserves, which we maintain for liquidity purposes. Interest income from deposits with the central bank remained relatively steady during the Track Record Period and amounted to RMB267.1 million, RMB250.6 million and RMB224.4 million in 2017, 2018 and 2019, respectively. Our interest income from deposits with the central bank represented 3.2%, 3.4% and 2.5% of our interest income in 2017, 2018 and 2019, respectively.

Interest Expense

The following table sets forth a breakdown of our interest expense for the years indicated:

	For the year ended December 31,											
	2017[1]			2018[1] (unaudited)			2018[2]			2019[2]		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except for percentages)											
Interest expense												
Deposits from customers	111,118.1	2,291.0	2.06%	115,168.4	2,232.2	1.94%	115,168.4	2,232.2	1.94%	131,264.3	3,202.9	2.44%
Deposits from banks and other financial institutions	4,558.2	163.0	3.58%	5,415.9	243.5	4.50%	5,415.9	243.5	4.50%	5,926.8	208.5	3.52%
Placements from banks and other financial institutions	4,932.0	232.0	4.70%	7,777.6	363.5	4.67%	7,777.6	363.5	4.67%	10,520.0	462.4	4.40%
Borrowing from the central bank	2,220.8	70.6	3.18%	2,512.0	77.2	3.07%	2,512.0	77.2	3.07%	3,167.9	102.0	3.22%
Financial assets sold under repurchase agreements	20,082.5	741.5	3.69%	9,310.6	352.0	3.78%	9,310.6	352.0	3.78%	4,720.7	113.7	2.41%
Discounted bills	930.0	41.9	4.51%	678.3	29.9	4.41%	678.3	29.9	4.41%	4,485.8	150.7	3.36%
Debt securities issued[3]	26,626.4	1,201.6	4.51%	41,970.9	2,059.0	4.91%	41,970.9	2,059.0	4.91%	36,225.9	1,411.2	3.90%
Total interest expense	**170,468.0**	**4,741.6**	**2.78%**	**182,833.7**	**5,357.3**	**2.93%**	**182,833.7**	**5,357.3**	**2.93%**	**196,311.4**	**5,651.4**	**2.88%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

(3) Consisted of certificates of interbank deposits, financial bonds, and tier-two capital debts issued by us.

Our interest expense increased by 13.0% from RMB4,741.6 million in 2017 to RMB5,357.3 million in 2018, primarily because (i) the average balance of interest-bearing liabilities increased by 7.3% from RMB170,468.0 million in 2017 to RMB182,833.7 million in 2018, and (ii) the average cost on interest-bearing liabilities increased from 2.78% in 2017 to 2.93% in 2018.

Our interest expense further increased by 5.5% from RMB5,357.3 million in 2018 to RMB5,651.4 million in 2019, primarily because the average balance of interest-bearing liabilities increased by 7.4% from RMB182,833.7 million in 2018 to RMB196,311.4 million in 2019, which was partially offset by a decrease in the average cost on interest-bearing liabilities from 2.93% in 2018 to 2.88% in 2019.

Interest Expense on Deposits from Customers

Deposits from customers were our primary source of funding. Our interest expense on deposits from customers accounted for 48.3%, 41.7% and 56.7% of our total interest expense in 2017, 2018 and 2019, respectively.

The following table sets forth the average balance, interest expense and average cost of our deposits from customers by product type for the years indicated:

	For the year ended December 31,								
	2017(1)			2018(2)			2019(2)		
	Average balance	Interest expense	Average cost(3)	Average balance	Interest expense	Average cost(3)	Average balance	Interest expense	Average cost(3)
	(in millions of RMB, except percentages)								
Corporate deposits(4)									
Time	40,204.2	943.8	2.35%	39,849.6	842.2	2.11%	41,992.3	1,298.6	3.09%
Demand	31,420.5	253.5	0.81%	34,346.6	252.4	0.73%	37,841.2	291.6	0.77%
Subtotal	**71,624.7**	**1,197.3**	**1.67%**	**74,196.2**	**1,094.6**	**1.48%**	**79,833.5**	**1,590.2**	**1.99%**
Personal deposits									
Time	33,998.8	1,065.2	3.13%	34,555.7	1,102.5	3.19%	44,280.7	1,574.4	3.56%
Demand	5,494.6	28.5	0.52%	6,416.5	35.1	0.55%	7,150.1	38.3	0.54%
Subtotal	**39,493.4**	**1,093.7**	**2.77%**	**40,972.2**	**1,137.6**	**2.78%**	**51,430.8**	**1,612.7**	**3.14%**
Total deposits from customers	**111,118.1**	**2,291.0**	**2.06%**	**115,168.4**	**2,232.2**	**1.94%**	**131,264.3**	**3,202.9**	**2.44%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

(3) Calculated by dividing interest expense by average balance.

(4) Including pledged deposits.

Our interest expense on deposits from customers decreased slightly by 2.6% from RMB2,291.0 million in 2017 to RMB2,232.2 million in 2018, primarily because the average cost on deposits from customers decreased from 2.06% in 2017 to 1.94% in 2018, which was partially offset by an increase of 3.6% in the average balance of deposits from customers from RMB111,118.1 million in 2017 to RMB115,168.4 million in 2018. The decrease in the average cost on deposits from customers was mainly due to the optimization of the interest payment capital structure, a modest reduction in time deposits business and an increase in demand deposits business, whilst the increase in the average balance of deposits from customers was primarily due to our endeavor to develop deposit business by enhancing marketing efforts, improving service quality and optimizing product portfolios, realising a steady growth in the average daily deposit scale.

Our interest expense on deposits from customers increased by 43.5% from RMB2,232.2 million in 2018 to RMB3,202.9 million in 2019, primarily because (i) the average cost on deposits from customers increased from 1.94% in 2018 to 2.44% in 2019, and (ii) the average balance of deposits from customers increased by 14.0% from RMB115,168.4 million in 2018 to RMB131,264.3 million in 2019. The increase in the average cost on deposits from customers was mainly due to the increased proportion of time deposits with relatively high cost. The increase in the average balance of deposits from customers was primarily due to our endeavor to develop deposit business by enhancing marketing efforts, improving service quality and optimizing product portfolios.

Interest Expense on Deposits from Banks and Other Financial Institutions

Our interest expense on deposits from banks and other financial institutions accounted for 3.4%, 4.5% and 3.7% of our total interest expense in 2017, 2018 and 2019, respectively.

Our interest expense on deposits from banks and other financial institutions increased by 49.4% from RMB163.0 million in 2017 to RMB243.5 million in 2018, primarily because the average balance of deposits from banks and other financial institutions increased from RMB4,558.2 million in 2017 to RMB5,415.9 million in 2018, and the average cost of deposits from banks and other financial institutions increased from 3.58% in 2017 to 4.50% in 2018. The increase in the average balance of deposits from banks and other financial institutions was primarily due to an increase in the scale of deposits from banks and other financial institutions as a result of our adjustment on our financing structure. The increase in the average cost on deposits from banks and other financial institutions was primarily due to an increase in the market interest rate for interbank deposits.

Our interest expense on deposits from banks and other financial institutions decreased by 14.4% from RMB243.5 million in 2018 to RMB208.5 million in 2019, primarily because a decrease in the average costs on deposits from banks and other financial institutions from 4.50% in 2018 to 3.52% in 2019, which was partially offset by an increase of 9.4% on the average balance of deposits from banks and other financial institution from RMB5,415.9 million in 2018 to RMB5,926.8 million in 2019. The decrease in average costs on deposits from banks and other financial institutions was primary due to (i) a decrease in market interest rates as a result of the increased market liquidity; and (ii) we enhanced our active liability management, shortened the terms of deposits from banks and other financial institutions, and optimized the liability structure, whilst the increase in the average balance of deposits from banks and other financial institutions was primarily due to the adjustment on financing structure by increasing the funds we obtained from deposits from banks and other financial institutions to support relevant business development.

Interest Expense on Financial Assets Sold under Repurchase Agreements

Our interest expense on financial assets sold under repurchase agreements accounted for 15.6%, 6.6% and 2.0% of our total interest expense in 2017, 2018 and 2019, respectively.

Our interest expense on financial assets sold under repurchase agreements decreased by 52.5% from RMB741.5 million in 2017 to RMB352.0 million in 2018, primarily because the average balance on financial assets sold under repurchase agreements decreased from RMB20,082.5 million in 2017 to RMB9,310.6 million in 2018, which was partially offset by a slight increase in the average cost on financial assets sold under repurchase agreements from 3.69% in 2017 to 3.78% in 2018. The decrease in average balance on financial assets sold under repurchase agreement was primary due to our optimization of liability structure and expansion of sources of funding through debt securities issuance. The increase in the average costs on financial assets sold under repurchase agreement was primarily due to the increase in market interest rates driven by tightened market liquidity, which in turn led to an increase in the cost of repurchase transactions.

Our interest expense on financial assets sold under repurchase agreements decreased by 67.7% from RMB352.0 million in 2018 to RMB113.7 million in 2019, primarily because (i) the average cost on financial assets sold under repurchase agreements decreased from 3.78% in 2018 to 2.41% in 2019, and (ii) the average balance of financial assets sold under repurchase agreements decreased from RMB9,310.6 million in 2018 to RMB4,720.7 million in 2019. The decrease in the average cost on financial assets sold under repurchase agreements was primarily due to (i) an increase in short-term transactions which generally have lower interest rates; and (ii) a decrease in the interbank market interest rate as a result of increased market liquidity while the decrease in the average balance of financial assets sold under repurchase agreements was primarily due to addition of sources of funding through channels such as deposits from customers to optimize the liability structure.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued accounted for 25.4%, 38.4% and 25.0% of our total interest expense in 2017, 2018 and 2019, respectively. Please see the subsection headed "— Capital Resources — Debt — Debt Securities Issued".

Our interest expense on debt securities issued increased by 71.4% from RMB1,201.6 million in 2017 to RMB2,059.0 million in 2018, primarily because (i) the average balance of debt securities issued increased significantly from RMB26,626.4 million in 2017 to RMB41,970.9 million in 2018, and (ii) the average cost on debt securities issued increased from 4.51% in 2017 to 4.91% in 2018. The increase in the average balance of debt securities issued was primarily attributable to the issuance of certificates of interbank deposit to replenish our working capital for business development. Please see "— Capital Resources — Debt — Debt Securities Issued" for details of our certificates of interbank deposit issued during the Track Record Period. The increase in the average cost on debt securities issued was primarily because the prevailing interest rate in the market of certificates of interbank deposit continued to rise in 2017 and remained at a high level in the first half of 2018 due to the impact of macroeconomic policies and PBoC's monetary policies, which further led to an increase in the average cost on the certificates of interbank deposit issued by us during this period.

Our interest expense on debt securities issued decreased by 31.5% from RMB2,059.0 million in 2018 to RMB1,411.2 million in 2019, primarily because (i) the average balance of debt securities issued decreased significantly from RMB41,970.9 million in 2018 to RMB36,225.9 million in 2019, and (ii) the average cost on debt securities issued decreased from 4.91% in 2018 to 3.90% in 2019. The decrease in the average balance of debt securities issued was primarily attributable to our adjustments to the liability structure and reduction of the certificates of interbank deposit business in accordance with our liquidity demands. Please see "— Capital Resources — Debt — Debt Securities Issued" for details of our certificates of interbank deposit issued during the Track Record Period. The decrease in the average cost on debt securities issued was primarily because the market interest rate decreased as a result of increased market liquidity.

Interest Expense on Borrowing from the Central Bank

Our interest expense on borrowing from the central bank amounted to RMB70.6 million, RMB77.2 million and RMB102.0 million in 2017, 2018 and 2019, respectively, and accounted for 1.5%, 1.4% and 1.8% of our total interest expense of the same period, respectively.

Our interest expense on borrowing from the central bank remained relatively stable during the Track Record Period.

Interest Expense on Placements from Banks and Other Financial Institutions

Our interest expense on placements from banks and other financial institutions accounted for 4.9%, 6.8% and 8.2% of our total interest expense in 2017, 2018 and 2019, respectively.

Our interest expense on placements from banks and other financial institutions increased by 56.7% from RMB232.0 million in 2017 to RMB363.5 million in 2018, primarily because the average balance of placements from banks and other financial institutions increased from RMB4,932.0 million in 2017 to RMB7,777.6 million in 2018, which was partially offset by a decrease in the average cost on placements from banks and other financial institutions from 4.70% in 2017 to 4.67% in 2018. The increase in average balance on placements from banks and other financial institutions was primarily due to an increase in the scale of placements from banks and other financial institutions resulting from the growth of our financial leasing business whilst the increase in the average costs on placements from banks and other financial institutions was primarily due to the price change in the capital market.

Our interest expense on placements from banks and other financial institutions increased by 27.2% from RMB363.5 million in 2018 to RMB462.4 million in 2019, primarily because the average balance of placements from banks and other financial institutions increased by 35.3% from RMB7,777.6 million in 2018 to RMB10,520.0 million in 2019, which was partially offset by a decrease on average costs on placements from banks and other financial institutions from 4.67% in 2018 to 4.40% in 2019. The increase in average balance on placements from banks and other financial institutions was primarily due to an increase in the scale of placements from banks and other financial institutions required in line with the continued growth of our financial leasing business, while the decrease in the average cost on placements from banks and other financial institutions was primarily due to the price change in the capital market.

Interest Expenses on Discounted Bills

Our interest expense on discounted bills accounted for 0.9%, 0.6% and 2.7% of our total interest expense in 2017, 2018 and 2019, respectively.

Our interest expense on discounted bills decreased by 28.6% from RMB41.9 million in 2017 to RMB29.9 million in 2018, primarily because (i) the average balance of discounted bills decreased by 27.1% from RMB930.0 million in 2017 to RMB678.3 million in 2018, and (ii) the average cost on discounted bills decreased from 4.51% in 2017 to 4.41% in 2018. The decrease of the average balance was primarily because we actively adjusted the proportion of discounted bills in our bill discounting portfolio in order to achieve higher return while the decrease of the average costs was primarily because we adjusted the maturity profile of our discounted bills pool.

Our interest expense on discounted bills increased substantially by 404.0% from RMB29.9 million in 2018 to RMB150.7 million in 2019, primarily because (i) the average balance of discounted bills increased significantly by 561.3% from RMB678.3 million in 2018 to RMB4,485.8 million in 2019, which was partially offset by a decrease in the average cost on discounted bills from 4.41% in 2018 to 3.36% in 2019. The increase of the average balance was primarily because we accelerated the rate of discounted bills in the rediscounting market in order to achieve higher yield return while the decrease of the average costs was primarily due to the decrease in the market interest rate.

Net Interest Spread and Net Interest Margin

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

According to IAS 39, our net interest spread was 1.73% in 2017. Assuming we still apply IAS 39 in 2018, our net interest spread in 2018 would be 1.62%. Should we still apply IAS 39, our net interest margin would decrease from 1.96% in 2017 to 1.82% in 2018. These decreases were mainly due to an increase in average cost of interest-bearing liabilities.

We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. According to IFRS 9, our net interest spread and net interest margin in 2018 were 1.49% and 1.16%, respectively. The aforementioned net interest spread and net interest margin differ from the result for the same year should we apply IAS 39, primarily because the interest income from financial investments measured at fair value through profit or loss under IAS 39 was recognized in the "net gains from investment securities" under IFRS 9 instead of "interest income" under IAS 39, and such financial investments were no longer considered as interest-earning assets. For details on differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Our net interest spread increased from 1.49% in 2018 to 1.83% in 2019 and our net interest margin increased from 1.16% in 2018 to 1.74% in 2019, primarily because (i) our average yield on interest-earning assets increased from 4.42% in 2018 to 4.71% in 2019, as a result of an increase in the average yield of loans and advances to customers, as we increased the proportion of loans with relatively high yields to optimize our asset structure, and (ii) our average cost of interest-bearing liabilities decreased from 2.93% in 2018 to 2.88% in 2019, mainly due to a decrease in the average cost of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and debt securities issued.

Net Fee and Commission Income

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,		
	2017(1)	**2018(2)**	**2019(2)**
		(in millions of RMB)	
Fee and commission income			
Agency services fees	73.6	59.3	129.1
Settlement and clearing fees	35.6	35.4	58.1
Consultancy and advisory fees	107.8	111.1	61.2
Bank card services fees(3)	10.5	19.7	17.4
Acceptance and guarantee services fees	44.8	41.7	46.2
Finance leases services fees	49.2	89.3	87.1
Others(4)	14.7	13.8	17.3
Subtotal	**336.2**	**370.3**	**416.4**
Fee and commission expense			
Settlement and clearing fees	(10.4)	(12.9)	(16.9)
Bank card services fees(3)	(20.9)	(25.4)	(36.0)
Agency services fees(5)	(53.8)	(246.5)	(75.7)
Others(6)	(14.4)	(12.3)	(16.1)
Subtotal	**(99.5)**	**(297.1)**	**(144.7)**
Net fee and commission income	**236.7**	**73.2**	**271.7**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

(3) For the years December 31, 2017, 2018 and 2019, our fee and commission expense on bank card services fees was greater than our fee and commission income on bank card services fees primarily because we reduced or exempted some of the bank card-related fees from our customers, such as annual fees and ATM cross-bank withdrawal handling fees, etc., in order to attract more high-quality customers and at the same time implemented the national inclusive finance policy such as the Notice of the CBRC of the National Development and Reform Commission on the Cancellation and Suspension of Some Basic Financial Service Charges of Commercial Banks ([2017] No. 1250) (《國家發展改革委中國銀監會關於取消和暫停商業銀行部分基礎金融服務收費的通知發改價格規[2017]1250號》) (the "**Cancellation Service Charges Notice**"). Under the Cancellation Service Charges Notice, among other things, commercial banks are required by the PRC Government to remove personal cash withdrawal fee at the counter in some circumstances, exempt annual fees and account management fees for debit card holders, etc., in order to promote the national inclusive finance policy, which aimed at providing affordable banking products and services to low income population.

(4) Consisted primarily of income from payment and collection clearance accounts and safekeeping business.

(5) This was primarily related to agency services fees we paid to other banks and financial institutions relating to derivative transactions carried out by them on our behalf during the Track Record Period. We cooperated with other banks and financial institutions (the "**Cooperated Banks**") during the Track Record Period and offered structured deposits to our banking customers. As structured deposits are essentially a combination of a deposit and an investment product where the return depends on the trading performance of the derivatives linked to it, as part of our arrangements with the Cooperated Banks, the Cooperated Banks carried out the derivative transactions linked to these structured deposits on our behalf and as part of their services, we paid agency services fees to them. The relevant agency services fees increased substantially in 2018 as compared to 2017 primarily due to the increase in our structured deposits received from our banking customers. Our structured deposits received in 2018 increased by approximately RMB25.9 billion as compared to 2017 and therefore the agency services fees paid to Cooperated Banks increased substantially in 2018. We obtained the qualification for trading derivatives in 2019 and started to carry out the derivative transactions by ourselves instead of relying on the Cooperated Banks in the second half of 2019 which caused a decrease in agency services fees paid to the Cooperated Banks.

For the years ended December 31, 2017, 2018 and 2019, the aggregated structured deposits we received from our banking customers amounted to RMB21.8 billion, RMB47.7 billion and RMB18.3 billion, respectively, and we mainly utilized the structured deposits received as loans and advances to our customers and in our financial investments. For details of our interest income on our loans and advances to customer and financial investment, please see "– Results of Operation for the Years Ended December 31, 2017, 2018 and 2019 – Interest Income from Loans and Advances to Customers" and "– Results of Operation for the Years Ended December 31, 2017, 2018 and 2019 – Interest Income from Financial Investment".

(6) Consisted primarily of custodial fee and other expenses.

Our net fee and commission income decreased by 69.1% from RMB236.7 million in 2017 to RMB73.2 million in 2018, primarily because of a 198.6% increase in fee and commission expenses from RMB99.5 million in 2017 to RMB297.1 million in 2018, which was partially offset by a 10.1% increase in fee and commission income from RMB336.2 million in 2017 to RMB370.3 million in 2018. The increase in fee and commission expenses was primarily due to the increase in agency service fees. For more details, please refer to Note 4 in Appendix I. The increase in fee and commission income was mainly due to the continued expansion of Tongda Financial Leasing Co.'s leasing business as a result of an increase in fee income from financial leasing business.

Our net fee and commission income increased substantially by 271.2% from RMB73.2 million in 2018 to RMB271.7 million in 2019, primarily because of an 12.4% increase in fee and commission income from RMB370.3 million in 2018 to RMB416.4 million in 2019, and a 51.3% decrease in fee and commission expenses from RMB297.1 million in 2018 to RMB144.7 million in 2019. The increase in fee and commission income was mainly due to the increase in relevant fee income as a result of the continuous growth of our agency business such as insurance and wealth management products. The decrease in fee and commission expenses was mainly due to a decrease in agency service fees.

Net Trading Gains/(Losses)

The following table sets for details of our net trading gains/(losses) for the years indicated:

	For the year ended December 31,			
	2017[(1)]	2018[(1)] (unaudited)	2018[(2)]	2019[(2)]
	(in millions of RMB)			
Net (losses)/gains from debt securities	(38.2)	63.8	63.8	43.5
Net losses from funds	—	—	0.0	(1.2)
Net losses from interbank deposits issued	(0.3)	—	—	—
Net (losses)/gains from investment management products	—	—	(15.7)	8.3
Net gains from derivatives	—	—	—	4.6
Exchange (losses)/gains	(0.5)	17.2	17.2	19.2
Total	**(39.0)**	**81.0**	**65.3**	**74.4**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

Our net trading losses amounted to RMB39.0 million in 2017 under IAS 39. Assuming we still apply IAS 39 in 2018, our net trading gains would be RMB81.0 million in 2018. The increase in our net trading gains was mainly due to the fluctuation of the debt securities yield in the market. As the yield of the debt securities decreased in the market in 2018 primarily due to the decrease in the money market interest rate in the second half of 2018 as a result of the loose PRC monetary policies, the fair value of the debt securities we invested increased, which caused an increase in an unrealized gains from our investment in debt securities in 2018. In addition, we recorded a net gain of RMB17.2 million in 2018 in foreign exchange mainly due to the appreciation of RMB against USD.

We have adopted IFRS 9 to replace IAS 39 since January 1, 2018. According to IFRS 9, our net trading gains in 2018 amounted to RMB65.3 million, which was less than the result for the same year should we apply IAS 39, mainly because certain financial investments which originally were investments classified as investment receivables or available-for-sale financial assets under IAS 39 were reclassified to financial investments measured at fair value through profit or loss under IFRS 9. For details on the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Our net trading gains further increased from RMB65.3 million in 2018 to RMB74.4 million in 2019 primarily due to the decline in the money market interest rate as a result of loose PRC monetary policies and the changes in the scale of our asset management plans. This caused the fair value of our asset management plans increased, which contributed to the increase in an unrealized gains from our investment management products in 2019.

Net trading losses or gains mainly reflect fluctuations in market interest rates, foreign exchange rates and commodity prices.

Net Gains Arising from Investment Securities

The following table sets for details of our net gains arising from investment activities for the years indicated:

	For the year ended December 31,			
	2017[(1)]	2018[(1)] (unaudited)	2018[(2)]	2019[(2)]
	(in millions of RMB)			
Net gains of financial investments at fair value through profit or loss	48.3	132.1	1,781.4	1,233.4
Net (losses)/gains of financial investments at fair value through other comprehensive income	—	—	(8.9)	57.8
Net losses on disposal of held-to-maturity investments	(1.7)	0.6	—	—
Net losses on disposal of available-for-sale financial assets	(5.1)	(9.5)	—	—
Dividend income	2.7	0.9	0.9	1.2
Net gains on disposal of investment classified receivables	—	(0.6)	—	—
Net gains of investment on derivatives	—	—	—	2.1
Total	**44.2**	**123.5**	**1,773.4**	**1,294.5**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

Our net gains arising from investment securities in 2017 amounted to RMB44.2 million under IAS 39. Assuming we still apply IAS 39 in 2018, our net gains arising from investment securities would increase from RMB44.2 million in 2017 to RMB123.5 million in 2018, which was due to the increase in the realized gains from our investment in debt securities and our transaction scale in debt securities. As the yield of the debt securities decreased in the market in 2018, the fair value of the debt securities we invested increased, which caused an increased in realized gains from our investment in debt securities in 2018. In addition, we realized more gains from our investment in debt securities primarily as a result of the increase in transaction scale in debt securities in 2018.

We have adopted IFRS 9 to replace IAS 39 since January 1, 2018. Our net gains from investment securities in 2018 and 2019 amounted to RMB1,773.4 million and RMB1,294.5 million, which were much higher than the results for the same years should we apply IAS 39, mainly because the interest income from financial investments measured at fair value through profit or loss under IAS 39 has been recognized in "net gains from investment securities" according to IFRS 9. For details on differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Our net gains arising from investment securities decreased from RMB1,773.4 million in 2018 to RMB1,294.5 million in 2019, mainly due to (i) our reduction of SPV Investment which led to a significant decline in net gains from financial investments measured at fair value through profit or loss; and (ii) average daily balance of our financial investments measured at fair value through profit or loss decreased by approximately RMB10,938.6 million as compared to 2018, which affected our interest income from our investment securities. The decrease in our SPV Investments and average daily balance of our financial investments measured at fair value through profit or loss was primarily due to our prudent approach in shrinking our investments in non-credit based SPV Investments which was in line with our investment strategies, risk appetite and risk management. Please refer to Note 6 in Appendix I for more details.

Other Components of Our Operating Income

Other components of our operating income consisted primarily of penalty income and government grants, and net gains from disposal of repossessed and self-used property and the equipment. Other components of our operating income amounted to RMB21.8 million, RMB19.2 million and RMB0.4 million in 2017, 2018 and 2019, respectively, representing 0.6%, 0.5% and 0.0% of our operating income, respectively.

Operating Expenses

The following table sets forth the principal components of our total operating expenses for the years indicated:

	For the year ended December 31,		
	2017	2018	2019
		(in millions of RMB)	
Staff costs	788.2	709.6	799.5
Depreciation and amortization	107.1	105.3	217.7
Taxes and surcharges	36.7	36.7	43.6
Rental and management expenses	121.3	124.9	11.9
Interest expense on lease liabilities	–	–	22.9
Other general and administrative expenses	385.9	372.3	366.7
Total operating expenses	**1,439.2**	**1,348.8**	**1,462.3**

Our operating expenses primarily consist of staff salary, depreciation and amortization, other general and administrative expenses and other operating expenses.

Our cost-to-income ratio (excluding taxes and surcharges) was 35.9%, 34.2% and 28.7% in 2017, 2018 and 2019, respectively. The continued decrease in our cost-to-income ratio was primarily because of our cost control measures and the increase in our operating income.

Staff Costs

Staff costs were the largest component of our operating expenses, representing 54.8%, 52.6% and 54.7% of our total operating expenses in 2017, 2018 and 2019, respectively.

The following table sets forth the components of our staff costs for the years indicated:

	For the year ended December 31,		
	2017	**2018**	**2019**
	(in millions of RMB)		
Salaries and allowances	599.9	526.5	624.2
Social insurance and annuity	78.4	86.4	82.9
Housing allowances	37.3	39.5	39.8
Staff welfare	17.1	15.2	10.4
Retirement benefits	34.9	23.7	20.3
Employee education expenses and labour union expenses	20.6	18.3	21.9
Total staff costs	**788.2**	**709.6**	**799.5**

Our staff costs decreased by 10.0% from RMB788.2 million in 2017 to RMB709.6 million in 2018, and then increased to RMB799.5 million in 2019. The change in staff costs was mainly attributable to the impacts of staff salaries for that year.

The salaries and allowances were the largest component of our staff costs, representing 76.1%, 74.2% and 78.1% of our total staff costs in 2017, 2018 and 2019, respectively. Salaries and allowances decreased by 12.2% from RMB599.9 million in 2017 to RMB526.5 million in 2018, mainly due to the decrease in performance-based salaries brought by performance assessment. The salaries and allowances in 2019 increased to RMB624.2 million, mainly because of the increase in performance-based salaries brought by our business growth.

Rental and Property Management Expenses

Our rental and property management expenses remained relatively stable in 2017 and 2018. Our rental and property management fees decreased substantially from RMB124.9 million in 2018 to RMB11.9 million in 2019, primarily attributable to the impact of adopting IFRS 16 in 2019. Please see subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies" for details of the impact of IFRS 16 on our operating results.

Depreciation and Amortization

Our depreciation and amortization consists primarily of depreciation of our property and equipment and amortization of renovation expenses and software development expenses. Our depreciation and amortization remained relatively stable in 2017 and 2018. Our depreciation and amortization increased significantly from RMB105.3 million in 2018 to RMB217.7 million in 2019, mainly because we started to recognize right-of-use assets in accordance with IFRS 16 on January 1, 2019, resulting in depreciation of right-of-use assets as of December 31, 2019 increased by RMB112.3 million.

Taxes and Surcharges

Our taxes and surcharges were RMB36.7 million both in 2017 and 2018, remaining relatively stable, and our taxes and surcharges increased from RMB36.7 million in 2018 to RMB43.6 million in 2019, mainly due to the increase in various surcharges from the increase in the amount of VAT paid.

Other General and Administrative Expenses

Our other general and administrative expenses primarily consist of business promotion expenses, electronic equipment operating costs, security expenses and insurance premiums. Other general and administrative expenses decreased by 3.5% from RMB385.9 million in 2017 to RMB372.3 million in 2018, and further decreased to RMB366.7 million in 2019, primarily reflecting our efforts to control other general and administrative expenses.

Impairment Losses on Assets

The following table sets forth the principal components of our impairment losses on assets for the years indicated:

	For the year ended December 31,			
	2017[(1)]	2018[(1)] (unaudited)	2018[(2)]	2019[(2)]
	(in millions of RMB)			
Impairment losses/(reversals) on assets:				
Financial assets held under resale agreements	—	—	(13.0)	2.6
Loans and advances to customers	331.6	1,216.0	1,226.0	1,361.1
Financial investments	87.0	27.5	10.3	132.0
Finance lease receivables	60.4	115.6	115.6	138.5
Credit commitments	N/A	N/A	(9.0)	5.4
Deposits with banks and other financial institutions	N/A	N/A	0.0	0.0
Placements with banks and other financial institutions	N/A	N/A	0.0	0.0
Others	32.2	8.0	5.4	31.6
Total	**511.2**	**1,367.1**	**1,335.3**	**1,671.2**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

We have adopted IFRS 9 to replace IAS 39 since January 1, 2018. According to IFRS 9, our impairment losses on assets amounted to RMB1,335.3 million in 2018, which was slightly less than the results of the same period should we apply IAS 39. Similarly, according to IFRS 9, our impairment losses on assets amounted to RMB1,671.2 million in 2019, which were more than the results of the same period should we apply IAS 39. The difference in the impairment losses under the IFRS 9 and IAS 39 was primarily due to the impact of the "expected credit loss" model under IFRS 9. For details on differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Assuming we still apply IAS 39 in 2018, our impairment losses on assets would amount to RMB1,367.1 million in 2018, representing a 167.4% increase from RMB511.2 million in 2017, mainly because (i) our impairment losses on loans and advances to customers increased by 266.7% from RMB331.6 million in 2017 to RMB1,216.0 million in 2018, primarily due to the increase in the scale of allowance for impairment losses on loans and advances to customers as a result of the adverse impacts of PRC's economic slowdown in 2018 as well as the industrial structure adjustment in Shandong Province which caused financial position of some of our borrowers to deteriorate in 2018; and (ii) our impairment losses on finance lease receivables increased by 91.4% from RMB60.4 million in 2017 to RMB115.6 million in 2018, primarily because of the increase in the provision for impairment of finance lease receivables as a result of the increase in the scale of finance lease business.

Our impairment losses on assets increased by 25.2% from RMB1,335.3 million in 2018 to RMB1,671.2 million in 2019, mainly because (i) our impairment losses on loans and advances to customers increased by 11.0% from RMB1,226.0 million in 2018 to RMB1,361.1 million in 2019, primarily due to the corresponding increase in the allowance for impairment of loans as a result of the increase in the scale of loans extended. In addition, the increase in our impairment losses on loans and advances was also caused by the adjustment of our forward-looking factors in the expected credit loss model; and (ii) our impairment losses on financial investments increased significantly by 1,181.6% from RMB10.3 million in 2018 to RMB132.0 million in 2019, primarily due to the increase in the provision for impairment losses of financial investments as a result of the operational difficulties of relevant corporate issuers.

Income Tax Expense

The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax for the years indicated:

	For the year ended December 31,			
	2017[(2)]	2018[(2)] (unaudited)	2018[(3)]	2019[(3)]
	(in millions of RMB)			
Profit before tax	1,957.6	1,133.4	1,149.5	1,813.7
Income tax calculated at applicable statutory tax rate	489.3	280.1	287.4	453.4
Non-deductible expenses	1.0	7.3	7.3	2.5
Non-taxable income[(1)]	(135.5)	(162.5)	(162.5)	(165.9)
Income tax expense	**354.8**	**124.9**	**132.2**	**290.0**

Notes:

(1) Non-taxable income mainly represents interest income from PRC government bonds, which is non-taxable in accordance with PRC tax regulations.

(2) Prepared in accordance with IAS 39.

(3) Prepared in accordance with IFRS 9.

We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. According to IFRS 9, our income tax amounted to RMB132.2 million in 2018, which was larger than the amount for the same period should we apply IAS 39, primarily because of the impact of the "expected credit loss" model under IFRS 9. For details on differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Assuming we still apply IAS 39 in 2018, our income tax in 2018 would be RMB124.9 million, representing a 64.8% decrease from 2017, primarily due to the decline in profit before tax.

Our income tax increased significantly by 119.4% from RMB132.2 million in 2018 to RMB290.0 million in 2019, mainly due to the increase in the profit before tax in 2019.

Our effective income tax rate was 18.1%, 11.5% and 16.0% in 2017, 2018 and 2019, respectively. Our effective income tax rate declined in 2018 as compared to 2017, mainly because the bonds issued by the PRC Government had a larger proportion in the financial asset allocation, contributing a larger portion to the income before tax and the interest income from the bonds issued by the PRC Government was tax-free in nature, which further led to the decline in the income tax rate. The increase in the income tax rate in 2019 was mainly due to the significant increase in the profit before tax under the circumstance that the tax-free income was basically stable, which resulted in the increase in the effective income tax rate.

The following table sets forth the components of our income tax expenses for the years indicated:

	For the year ended December 31,			
	2017(1)	2018(1) (unaudited)	2018(2)	2019(2)
	(in millions of RMB)			
Current income tax — PRC enterprise income tax	382.6	423.0	423.0	658.7
Deferred income tax	(27.8)	(298.1)	(290.8)	(368.7)
Total income tax expense	354.8	124.9	132.2	290.0

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

Net Profit

Primarily as a result of all the foregoing factors, our net profit decreased by 36.5% from RMB1,602.8 million in 2017 to RMB1,017.3 million in 2018, and further increased by 49.8% to RMB1,523.7 million in 2019.

Other Comprehensive Income/(Loss)

According to IFRS 9 which we have adopted since January 1, 2018, financial assets measured at fair value through other comprehensive income consist of debt securities, certificates of interbank deposit, SPV Investment and discounted bills, which were originally classified as (i) available-for-sale financial assets; and (ii) loans and advances to customers under IAS 39.

Changes in Fair Value of Available-for-sale Financial Assets

Most of our available-for-sale financial assets are available-for-sale debt securities and funds measured at fair value. We recorded a fair value loss of RMB79.8 million in fair value of available-for-sale financial assets in 2017, mainly due to the changes in commodity price under available-for-sale accounts, according to IAS 39.

Changes in Fair Value and Provision for Impairment Losses of Financial Assets Measured at Fair Value through Other Comprehensive Income

According to IFRS 9 which we have adopted since January 1, 2018, financial assets measured at fair value through other comprehensive income consist of debt securities, certificates of interbank deposit, SPV Investment and discounted bills, which were originally classified as (i) available-for-sale financial assets; and (ii) loans and advances to customers under IAS 39. We recorded a fair value gain of RMB168.0 million in financial assets measured at fair value through other comprehensive income in 2018. We incurred reversal of impairment losses of RMB6.0 million on such financial assets in 2018 in accordance with the expected credit loss model under IFRS 9.

SUMMARY OF SEGMENT OPERATING RESULTS

Summary Business Segment Information

We have three principal business segments: corporate banking, retail banking and financial markets. Please see "Business — Our Principal Business Lines". The following table sets forth our operating results for each of our principal segments for the periods indicated:

	For the year ended December 31,														
	2017					2018					2019				
	Corporate banking	Retail banking	Financial markets	Others[1]	Total	Corporate banking	Retail banking	Financial markets	Others[1]	Total	Corporate banking	Retail banking	Financial markets	Others[1]	Total
	(in millions of RMB)														
External net interest income/(expense)[2]	1,728.2	(645.1)	2,561.2	–	**3,644.3**	1,574.8	(332.3)	660.0	–	**1,902.5**	1,852.1	(502.5)	1,956.6	–	**3,306.2**
Internal net interest (expense)/income[3]	247.8	1,140.7	(1,388.5)	–	**–**	626.0	1,019.6	(1,645.6)	–	**–**	931.3	1,337.1	(2,268.4)	–	**–**
Net interest income	**1,976.0**	**495.6**	**1,172.7**	**–**	3,644.3	**2,200.8**	**687.3**	**(985.6)**	**–**	1,902.5	**2,783.4**	**834.6**	**(311.8)**	**–**	3,306.2
Net fee and commission income/(expense)	160.3	26.4	56.4	(6.4)[6]	**236.7**	17.3	27.1	34.4	(5.6)[6]	**73.2**	129.1	62.6	91.3	(11.3)[6]	**271.7**
Net trading (losses)/gains	(0.5)	–	(38.5)	–	**(39.0)**	17.3	–	48.0	–	**65.3**	19.2	–	55.2	–	**74.4**
Net gains arising from investment securities	–	–	44.2	–	**44.2**	–	–	1,773.4	–	**1,773.4**	–	–	1,294.5	–	**1,294.5**
Other operating income[4]	–	–	–	21.8	**21.8**	–	–	–	19.2	**19.2**	–	–	–	0.4	**0.4**
Operating income[5]	**2,135.8**	**522.0**	**1,234.8**	**15.4**	**3,908.0**	**2,235.4**	**714.4**	**870.2**	**13.6**	**3,833.6[7]**	**2,931.7**	**897.2**	**1,129.2**	**(10.9)**	**4,947.2**
Operating expenses	**(878.4)**	**(220.5)**	**(321.5)**	**(18.8)**	**(1,439.2)**	**(722.1)**	**(305.9)**	**(304.7)**	**(16.1)**	**(1,348.8)**	**(1,033.5)**	**(220.0)**	**(192.0)**	**(16.8)**	**(1,462.3)**
Impairment losses on assets	(329.4)	(42.2)	(138.6)	(1.0)	**(511.2)**	(969.8)	(244.6)	(115.7)	(5.2)	**(1,335.3)**	(1,071.7)	(312.4)	(276.6)	(10.5)	**(1,671.2)**
Profit/(loss) before tax	**928.0**	**259.3**	**774.7**	**(4.4)**	**1,957.6**	**543.5**	**163.9**	**449.8**	**(7.7)**	**1,149.5**	**826.5**	**364.8**	**660.6**	**(38.2)**	**1,813.7**

	For the three months ended March 31,									
	2019 (unaudited)					2020				
	Corporate banking	Retail banking	Financial markets	Others[1]	Total	Corporate banking	Retail banking	Financial markets	Others[1]	Total
	(in millions of RMB)									
External net interest income/(expense)[2]	448.3	(113.6)	362.2	–	**696.9**	437.9	(135.4)	629.1	–	**931.6**
Internal net interest income/(expense)[3]	207.2	338.4	(545.6)	–	**–**	316.3	453.3	(769.6)	–	**–**
Net interest income	**655.5**	**224.8**	**(183.4)**	**–**	**696.9**	**754.2**	**317.9**	**(140.5)**	**–**	**931.6**
Net fee and commission (expense)/income	(10.7)	21.0	38.2	(2.3)	**46.2**	57.1	29.3	38.5	(1.2)	**123.7**
Net trading (losses)/gains	(1.7)	–	61.3	–	**59.6**	8.6	–	(21.3)	–	**(12.7)**
Net gains arising from investment securities	–	–	353.1	–	**353.1**	–	–	417.3	–	**417.3**
Other operating income[4]	3.0	–	–	0.3	**3.3**	4.3	–	–	0.9	**5.2**
Operating income[5]	**646.1**	**245.8**	**269.2**	**(2.0)**	**1,159.1**	**824.2**	**347.2**	**294.0**	**(0.3)**	**1,465.1**
Operating expenses	**(216.4)**	**(111.8)**	**(37.5)**	**(0.6)**	**(366.3)**	**(215.8)**	**(125.7)**	**(16.1)**	**(0.7)**	**(358.3)**
Impairment losses on assets	(215.4)	(59.7)	(71.2)	–	**(346.3)**	(394.2)	(119.0)	(121.1)	–	**(634.3)**
Profit/(loss) before tax	**214.3**	**74.3**	**160.5**	**(2.6)**	**446.5**	**214.2**	**102.5**	**156.8**	**(1.0)**	**472.5**

Notes:

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

(2) Consisted of net interest income/(expense) from external clients or activities.

(3) Consisted of net interest income/(expense) attributable to each segment's transactions with other segments.

(4) Consisted primarily of penalty income, government grants, and net gains from disposal of repossessed and self-used property and equipment.

(5) Our operating income from these segments represents the net interest income derived solely from the respective lines of business, which is further added/deducted by net fee and commission income/(expense), net gains/(losses) on trading activities, net gains/(losses) arising from investment securities or other operating income/(expense), as applicable, attributable to the respective lines of business.

(6) During the Track Record Period, we recorded losses for our net fee and commission under others primarily because we reduced part of the settlement services fee in order to attract new customers.

(7) Assuming we still apply IAS 39 in 2018, our operating income in 2018 would amount to RMB3,849.3 million, representing a slight decrease of 1.5% from RMB3,908.0 million in 2017. This was mainly attributed to (i) a decrease of 69.1% in net fee and commission income from RMB236.7 million in 2017 to RMB73.2 million in 2018; and (ii) a slight decrease of 2.5% in net interest income from RMB3,644.3 million in 2017 to RMB3,552.4 million in 2018. Our net fee and commission income decreased from RMB236.7 million in 2017 to RMB73.2 million in 2018 was primarily due to increase in agency services fees we paid to other banks and financial institutions for derivative transactions carried out by them on our behalf in 2018, which was partially offset by a slight increase in fee and commission income from RMB336.2 million in 2017 to RMB370.3 million in 2018. For details, please see "– Results of Operations for The Years Ended December 31, 2017, 2018 and 2019 – Net Fee and Commission Income". In addition, our net interest income decreased from RMB3,644.3 million in 2017 to RMB3,552.4 million in 2018, which was primarily due to an increase of 13.0% in our interest expenses as a result of (i) an increase in market interest rate in 2018 brought by the tightened market liquidity, which affected our average cost on interest-bearing liabilities to increase from 2.78% in 2017 to 2.93% in 2018; and (ii) an increase in our issuance of certificates of interbank deposit to replenish our working capital purposes, which was partially offset by a slight increase in interest income from RMB8,385.9 million in 2017 to RMB8,909.7 million in 2018. For details, please see "– Results of Operations for The Years Ended December 31, 2017, 2018 and 2019 – Net Interest Income".

Operating income from our corporate banking business represented 54.6%, 58.3%, 59.3%, 55.8% and 56.3% of our total operating income in 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, respectively. Operating income from our corporate banking business increased by 4.7% from RMB2,135.8 million in 2017 to RMB2,235.4 million in 2018 and further increased by 31.1% to RMB2,931.7 million in 2019. Similarly, our operating income from our corporate banking business also increased by 27.6% from RMB646.1 million for the three months ended March 31, 2019 to RMB824.2 million for the three months ended March 31, 2020. The continuous increases in the operating income from our corporate banking business was primarily due to the increase in the net interest income as a result of our efforts to develop our corporate loan business.

Operating income from our retail banking business represented 13.4%, 18.6%, 18.1%, 21.2% and 23.7% of our total operating income in 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, respectively. Operating income from our retail banking business increased by 36.9% from RMB522.0 million in 2017 to RMB714.4 million in 2018, and further increased by 25.6% to RMB897.2 million in 2019. Similarly, our operating income from our retail banking business also increased by 41.3% from RMB245.8 million for the three months ended March 31, 2019 to RMB347.2 million for the three months ended March 31, 2020. The continuous increases in the operating income from retail banking business was primarily due to the rapid growth of our personal loan scale and the increase in the average yield.

Operating income from our financial markets business represented 31.6%, 22.7%, 22.8%, 23.2% and 20.1% of our total operating income in 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, respectively. Operating income from our financial markets business decreased by 29.5% from RMB1,234.8 million in 2017 to RMB870.2 million in 2018, primarily due to the decrease in the scale of our financial investments which was mainly because of our prudent approach in managing our non-credit based SPV investment and affected by relevant regulatory policies. Our operating income from financial market business increased by 29.8% from RMB870.2 million in 2018 to RMB1,129.2 million in 2019 and increased by 9.2% from RMB269.2 million for the three months ended March 31, 2019 to RMB294.0 million for the three months ended March 31, 2020, primarily due to our adjustments to our liability structure in accordance with business strategies, risk management policies and market conditions, and the decrease in the interest expenses on deposits from banks and other financial institutions and issued certificates of interbank deposit. We recorded net loss of RMB985.6 million and RMB311.8 million in interest income for the year 2018 and 2019 and net loss of RMB183.4 million and RMB140.5 million for the three months ended March 31, 2019 and 2020, respectively, under our financial markets segments. This was mainly due to our adoption and implementation of IFRS 9 since January 1, 2018. Interest income from financial investments measured at fair value through profit or loss under IAS 39 was recorded under the financial markets segments but under IFRS 9, this has now been recognized in "net gains from investment securities". Please also see "— Results of Operations For the Years Ended December 31, 2017, 2018 and 2019 — Net Gains Arising From Investment Securities" and "Financial Information – Results of Operations for the Three Months Ended March 31, 2019 and 2020 — Net Gains Arising from Investment Securities". For details on differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Summary of Operating Results by Geographic Regions

In presenting information on the basis of geographic regions, operating income is gathered according to the locations of the branches or subsidiary that generated the income. For the purpose of presentation, we categorize such information by geographic regions. The following table sets forth the total operating income of each of the geographic regions for the periods indicated:

	For the years ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019 (unaudited)		2020	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Weihai City	2,355.4	60.3%	2,185.8	57.0%	2,833.0	57.3%	715.9	61.8%	937.4	64.0%
Outside Weihai City	1,552.6	39.7%	1,647.8	43.0%	2,114.2	42.7%	443.2	38.2%	527.7	36.0%
Total	**3,908.0**	**100.0%**	**3,833.6**	**100.0%**	**4,947.2**	**100.0%**	**1,159.1**	**100.0%**	**1,465.1**	**100.0%**

Since our establishment we have operated our businesses in Shandong Province and our operations in Weihai City have become the largest sources of our operating income. In 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, operating income from our operations in Weihai City accounted for 60.3%, 57.0%, 57.3% 61.8% and 64.0%, respectively, of our total operating income.

CASH FLOWS

The following table sets forth our cash flows for the periods indicated:

	For the years ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019	2020
	(in millions of RMB)				
Cash flows from operating activities before changes in operating assets and liabilities	3,771.3	2,811.1	3,782.1	886.4	1,034.9
Cash flows from changes in operating assets and liabilities	(3,896.7)	(14,734.4)	6,934.4	939.0	2,435.0
Net cash flows (used in)/generated from operating activities	**(125.4)**	**(11,923.3)**	**10,716.5**	**1,825.4**	**3,469.9**
Net cash flows (used in)/generated from investing activities	(14,903.0)	1,386.5	15,938.8	(5,038.6)	(4,156.5)
Net cash flows generated from/(used in) financing activities	6,140.5	9,096.0	(12,275.7)	4,558.1	(1,076.2)
Effect of exchange rate changes on cash and cash equivalents	0.7	1.3	(1.4)	0.0	0.0
Net (decrease)/increase in cash and cash equivalents	**(8,887.2)**	**(1,439.5)**	**14,378.2**	**1,344.9**	**(1,762.8)**

Cash Flows Generated from/(Used in) Operating Activities

Cash inflows from operating activities are primarily attributable to increased in deposits from customers, increased in financial assets sold under repurchase agreements and decreased in financial assets held under resale agreements.

Our increase in deposits from our customers was RMB9,581.0 million, RMB26,416.9 million, RMB10,988.0 million and RMB12,673.0 million in 2017 and 2019 and for the three months ended March 31, 2019 and 2020, respectively. For a discussion on increase in our deposits from customers during the Track Record Period, please see "Assets and Liabilities — Liabilities — Deposits from Customers". We had an increase of RMB1,975.6 million, RMB4,186.4 million and RMB3,713.2 million in financial assets sold under repurchase agreement in 2017 and 2019 and for the three months ended March 31, 2019, respectively. We incurred a decrease of RMB4,993.8 million, RMB13,666.1 million and RMB5,389.3 million in financial assets held under resale agreement in 2017 and 2018 and for the three months ended March 31, 2020, respectively.

Cash outflows from operating activities are primarily attributable to increase in loans and advances to customers, increase in financial assets held under resale agreements and decrease in deposits from banks and other financial institutions.

Our increase in loans and advances to customers amounted to RMB12,639.5 million, RMB9,522.5 million, RMB17,344.5 million, RMB10,419.8 million and RMB11,201.9 million in 2017, 2018 and 2019 and for the three months ended March 31, 2019 and 2020, respectively. For a discussion on increase in our loans and advances to customers during the Track Record Period, please see "Assets and Liabilities — Assets — Loans and Advances to Customers". We had an increase of RMB3,997.3 million and RMB2,766.1 million in financial assets held under resale agreement for the year ended December 31, 2019 and for the three months ended March 31, 2019. The decrease in deposits from bank and other financial institutions was RMB8,835.2 million, RMB2,388.5 million and RMB2,026.5 million in 2017 and 2019 and for the three months ended March 31, 2019, respectively.

Primarily as a result of the foregoing, our net cash outflows generated from operating activities was RMB125.4 million and RMB11,923.3 million in 2017 and 2018, respectively. This was primarily attributable to (i) an increase in loans and advances to our customers and an increase in our other operating assets which were in line with our business expansion and our continuous efforts to develop our business; and (ii) a decrease in financial assets held under resale agreements as we took the initiative to adopt cautious risk control measures in accordance with the regulatory development and risk management policies, which was offset by (i) decrease in deposits from banks and other financial institutions and increase in deposit from customers in 2017; and (ii) decrease in financial assets sold under repurchase agreement, decrease in deposits from our customers and increase in deposits from banks and other financial institutions in 2018. The changes in our operating liabilities in 2017 and 2018 was mainly due to our adjustment to the mix of financing structures pursuant to our risk management policies as well as the market conditions.

We had net cash inflow generated from operating activities of RMB10,716.5 million, RMB1,825.4 million and RMB3,469.9 million in 2019 and three months ended March 31, 2019 and 2020, mainly due to increase in deposits from our customers, which was in line with our marketing efforts and constantly offer new and attractive deposit products to our customers, partially offset by (i) an increase in loans and advances to our customers, which was resulted from our business expansion and our continuous efforts to develop our business; and (ii) increase in financial assets held under resale agreement, which was results from our efforts to improve the efficiency of the use of our funds by entering into more reverse repurchase transaction in accordance with our liquidity management.

In order to improve our cash flow position, we will continue to enhance our efforts to increase deposits from customers by innovating deposit products with specific features to address the demands of different customer groups, while optimizing our asset structure, closely monitoring and properly arranging the cash outflows from our credit extension business and financial assets held under resale agreements.

Cash Flows (Used in)/Generated from Investing Activities

Cash inflows from investing activities are primarily attributable to proceeds from the disposal and redemption of investments. We received cash from the sale and redemption of investments of RMB103,815.4 million, RMB139,525.3 million, RMB289,550.2 million, RMB106,864.0 million and RMB152,267.9 million in 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, respectively.

Our cash outflows from investing activities are primarily attributable to payment on acquisition of investments. We used cash of RMB122,152.7 million, RMB142,200.5 million, RMB278,245.7 million, RMB112,993.2 million and RMB157,659.3 million in 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, respectively, to purchase investment securities.

Cash Flows Generated from/(Used in) Financing Activities

Our cash inflows from financing activities are primarily attributable to proceeds from issued debt securities and proceeds from capital contribution by shareholders. Our proceeds from issuance of debt securities were RMB74,957.8 million, RMB61,994.1 million, RMB65,574.6 million, RMB26,238.5 million and RMB5,661.4 million, in 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, respectively. Our proceeds from capital contribution by shareholders were RMB2,240.0 million and RMB132.3 million in 2018 and for the three months ended March 31, 2020.

Our cash outflows from financing activities are primarily attributable to principal and interest paid on debt securities issued and dividends paid. Our repayment of the principal of debt securities was RMB67,040.0 million, RMB52,740.0 million, RMB78,790.0 million, RMB21,190.0 million and RMB6,450.0 million, in 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, respectively. Our interest paid in relation to debt securities issued was RMB1,154.4 million, RMB1,973.9 million, RMB1,513.5 million, RMB453.7 million and RMB293.5 million, in 2017, 2018, 2019 and for the three months ended March 31, 2019 and 2020, respectively. Our dividends paid were RMB622.9 million, RMB424.2 million, RMB418.0 million and RMB87.2 million in 2017, 2018, 2019 and for the three months ended March 31, 2020, respectively.

LIQUIDITY

We fund our loans and investment portfolios principally through our deposits from customers. Although a majority of our deposits from customers have been short-term deposits, deposits from customers have been, and we believe will continue to be, a stable source of our customer funding. Deposits from customers with remaining maturities of less than one year or repayable on demand represented 76.6%, 73.1%, 65.5% and 65.1% of total deposits from customers as of December 31, 2017, 2018, 2019 and March 31, 2020, respectively. For additional information about our short-term liabilities and sources of funds, please see "Assets and Liabilities — Liabilities and Sources of Funds" and "Supervision and Regulation — Loan Classification, Allowances and Write-offs — Other Operational and Risk Management Ratios".

We manage liquidity by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds to meet obligations as they become due. We have set requirements on the minimum proportion of maturity funds available to meet the demands for cash payment. We have also set the minimum level of interbank and other borrowing facilities in place to meet any unexpected liquidity requirements. Please see "Risk Management — Liquidity Risk Management".

The following table sets forth, as of March 31, 2020, the remaining maturities of our assets and liabilities:

	As of March 31, 2020							
	Indefinite	Repayable on demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)							
Assets								
Cash and deposits with the central bank	—	19,256.1	—	—	—	—	—	19,256.1
Deposits with banks and other financial institutions	—	1,064.9	—	—	—	—	—	1,064.9
Placements with banks and other financial institutions	—	1.1	354.3	212.6	—	—	—	568.0
Financial assets held under resale agreements	—	—	—	—	—	—	—	—
Loans and advances to customers	—	1,662.9	4,769.8	8,083.4	37,349.2	27,600.7	21,739.7	101,205.7
Financial investments	1,091.1	—	1,804.0	5,088.3	12,245.2	44,103.0	30,573.0	94,904.6
Financial investments at amortized cost	897.4	—	1,440.5	2,653.4	4,052.8	26,677.5	17,040.2	52,761.8
Financial investments at fair value through other comprehensive income	193.7	—	363.5	107.7	2,315.3	8,511.4	12,904.1	24,395.7
Financial assets at fair value through profit or loss	—	—	—	2,327.2	5,877.1	8,914.1	628.7	17,747.1
Others	268.7	30.3	1,585.5	1,110.0	4,350.4	9,921.4	1,024.6	18,290.9
Total assets	**1,359.8**	**22,015.3**	**8,513.6**	**14,494.3**	**53,944.8**	**81,625.1**	**53,337.3**	**235,290.2**

	As of March 31, 2020							
	Indefinite	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)							
Liabilities								
Borrowing from the central bank	—	3.4	400.0	1,791.2	3,113.7	—	—	5,308.3
Deposits from banks and other financial institutions	—	589.3	10.0	1,655.0	2,610.0	—	—	4,864.3
Placements from banks and other financial institutions	—	204.6	—	710.0	11,094.3	—	—	12,008.9
Financial assets sold under repurchase agreements	—	0.2	4,502.9	564.0	727.7	—	—	5,794.8
Deposits from customers	—	53,082.4	8,706.8	7,940.6	32,193.5	54,366.4	345.4	156,635.1
Debt securities issued	—	155.3	1,198.1	6,703.9	15,373.9	392.8	4,994.2	28,818.2
Others[(1)]	65.4	402.1	80.7	1,024.1	1,076.4	972.6	84.8	3,706.1
Total liabilities	**65.4**	**54,437.3**	**14,898.5**	**20,388.8**	**66,189.5**	**55,731.8**	**5,424.4**	**217,135.7**
Net position	**1,294.4**	**(32,422.0)**	**(6,384.9)**	**(5,894.5)**	**(12,244.7)**	**25,893.3**	**47,912.9**	**18,154.5**

Note:

(1) Consisted primarily of income tax payables and other liabilities.

We have been closely monitoring the maturity profile of our assets and liabilities while actively monitoring various liquidity indicators. For details of our liquidity indicators, please see "Supervision and Regulation — Loan Classification, Allowances and Write-offs — Other Operational and Risk Management Ratios".

Based on our experience, a majority of the maturing liabilities including deposits will be rolled over and continue to remain with us. We have been focusing on maintaining stable sources of funding and increasing our deposits from customers. Furthermore, to meet potential liquidity demand, we have taken the initiative to hold highly liquid financial assets, such as debt securities issued by the PRC Government and 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 we need to take measures to tackle the liquidity gap, we can utilize our cash and surplus deposit reserves and obtain funds from disposing our highly liquid financial assets on short notice or as required. We may also obtain financing in the interbank market and through issuing interbank certificates of deposit. For details of our liquidity risk management measures, please see "Risk Management — Liquidity Risk Management".

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material liquidity issues and our capital adequacy ratios did not fell below the regulatory requirements during this period.

CAPITAL RESOURCES

Shareholders' Equity

The following table sets forth the components of the changes in our total equity attributable to shareholders for the periods indicated:

	Shareholders' equity
	(in millions of RMB)
As of January 1, 2017 [1]	**10,153.9**
Surplus reserve	150.0
General reserve	265.1
Fair value reserve[3]	(59.8)
Retained earnings	526.1
Non-controlling interests	35.8
As of December 31, 2017 [1]	**11,071.1**
Fair value reserve [3]	(124.8)
Impairment reserve	3.7
Retained earnings	(113.3)
As of January 1, 2018 [2]	**10,836.7**
Share capital	800.0
Capital reserve	1,440.0
Surplus reserve	85.8
General reserve	153.3
Fair value reserve[3]	126.0
Impairment reserve[4]	4.5
Retained earnings	308.3
Non-controlling interests	52.9
As of December 31, 2018 [2]	**13,807.5**
Other equity instruments	2,999.7
Surplus reserve	136.3
General reserve	352.4
Fair value reserve[3]	23.2
Impairment reserve[4]	0.9
Retained earnings	519.5
Non-controlling interests	84.0
As of December 31, 2019 [2]	**17,923.5**
Capital reserve	(7.6)
General reserve	213.8
Fair value reserve[3]	235.4
Impairment reserve[4]	3.6
Retained earnings	(351.5)
Non-controlling interests	137.3
As of March 31, 2020[2]	**18,154.5**

Notes:

(1) IAS 39 was adopted prior to January 1, 2018.

(2) IFRS 9 was adopted from January 1, 2018.

(3) Represented the accumulated gains or losses arising from changes in fair value of (a) available-for-sale financial assets under IAS 39, and (b) financial assets measured at fair value through other comprehensive income under IFRS 9.

(4) Represented the provision for impairment losses on financial assets measured at fair value through other comprehensive income which was recognized in other comprehensive income in accordance with IFRS 9.

We have adopted IFRS 9 commencing from January 1, 2018 and have made adjustments to fair value reserve, impairment reserve and retained earnings according to IFRS 9. For details on differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "— Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Impact of New Accounting Policies".

Debt

Debt Securities Issued

In September 24, 2015, we issued 10-year tier-two capital bonds with face value of RMB3,000.0 million. The coupon interest rate per annum is 5.20%. On July 11, 2017, we also issued 10-year tier-two capital debts with face value of RMB2,000.0 million. The coupon interest rate per annum is 5.00%.

As of March 31, 2020, the fair value of the our tier-two capital bonds issued was RMB5,078.8 million.

Certificates of Interbank Deposit

During the Track Record Period, we issued a number of certificates of interbank deposit. The following are certificates of interbank deposit we have issued:

- In 2017, we issued a number of certificates of interbank deposit with total nominal amount of RMB73,530.0 million and duration between one to 12 months. The effective interest rates ranged from 3.65% to 5.55%;

- In 2018, we issued a number of certificates of interbank deposit with total nominal amount of RMB59,640.0 million and duration between one to 12 months. The effective interest rates ranged from 2.92% to 5.10%; and

- In 2019, we issued a number of certificates of interbank deposit with total nominal amount of RMB65,540.0 million and duration between one to 12 months. The effective interest rates ranged from 2.50% to 3.70%.

- For the three months ended March 31, 2020, we issued a number of certificates of interbank deposit with total nominal amount of RMB5,610.0 million and duration between three to 12 months. The effective interest rates ranged from 2.60% to 3.20%.

As of March 31, 2020, the fair value of our certificates of interbank deposit issued was RMB21,751.0 million.

Financial Bonds

On February 17, 2014, we issued five-year micro and small enterprise loan special financial bonds (Phase I) with a face value of RMB500.0 million. The coupon interest rate per annum is 6.00%. On June 23, 2014, we issued five-year micro and small enterprise loan special financial bonds (Phase II) with a face value of RMB2,500.0 million. The coupon interest rate per annum is 5.80%. On March 21, 2018, we issued three-year green financial bonds with a face value of RMB2,000.0 million. The coupon interest rate per annum is 5.43%.

As of March 31, 2020, the fair value of our financial bonds issued was RMB2,053.0 million.

Capital Adequacy

We are subject to capital adequacy requirements as promulgated by the CBRC. We are required to maintain our capital adequacy ratio above the minimum level required by the CBRC during the transitional period.

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy ratio, calculated in accordance with the Capital Administrative Measures and PRC GAAP:

	As of December 31,			As of March 31,
	2017	**2018**	**2019**	**2020**
	(in millions of RMB, except ratios)			
Core tier-one capital				
Share capital	4,171.2	4,971.2	4,971.2	4,971.2
Qualifying portion of capital reserve	1,680.0	3,120.0	3,120.0	3,112.3
Surplus reserve	867.0	952.7	1,089.1	1,089.1
General reserve	1,573.6	1,726.9	2,079.2	2,293.0
Other comprehensive income	(54.3)	(44.9)	(20.7)	218.3
Retained earnings	2,446.1	2,641.1	3,160.6	2,809.1
Qualifying portions of non-controlling interests	235.3	321.7	363.7	482.5
Total core tier-one capital	**10,918.9**	**13,688.7**	**14,763.1**	**14,975.5**

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	(in millions of RMB, except ratios)			
Core tier-one capital deductions	(40.5)	(35.7)	(38.9)	(35.2)
Other tier-one capital	31.4	42.9	3,048.2	3,064.0
Net tier-one capital	10,909.8	13,695.9	17,772.4	18,004.3
Issued and share premium	5,000.0	5,000.0	5,000.0	5,000.0
Surplus provision for loan impairment	842.2	1,092.5	1,315.9	1,394.7
Qualifying portion of non-controlling interests	62.8	85.8	97.0	128.7
Tier-two capital	5,905.0	6,178.3	6,412.9	6,523.4
Net base	**16,814.8**	**19,874.2**	**24,185.3**	**24,527.7**
Total risk-weighted assets	**131,192.9**	**131,405.4**	**150,891.5**	**162,994.0**
Core tier-one capital adequacy ratio	**8.29%**	**10.39%**	**9.76%**	**9.17%**
Tier-one capital adequacy ratio	**8.32%**	**10.42%**	**11.78%**	**11.05%**
Capital adequacy ratio	**12.82%**	**15.12%**	**16.03%**	**15.05%**

We closely monitor capital adequacy ratios to ensure compliance with regulatory requirements. We may take various measures to comply with the applicable regulatory capital adequacy requirements, including (i) raising capital by issuing new shares and debt securities, (ii) increasing retained earnings by continually improving profitability, and (iii) managing the growth of risk-weighted assets.

As of March 31, 2020, our core tier-one capital adequacy ratio was 9.17%, our tier-one capital adequacy ratio was 11.05% and our capital adequacy ratio was 15.05%, which were all in compliance with the CBIRC requirements.

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of bank acceptances, loan commitment, letters of guarantee issued, operating lease commitment and capital commitment. 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,
	2017	2018	2019	2020
	(in millions of RMB)			
Credit commitment				
Credit card commitment	253.9	518.2	1,181.0	1,231.6
Acceptances	25,721.4	21,306.9	24,142.4	27,049.6
Letter of credit	2,377.1	2,046.2	1,796.7	1,563.8
Letter of guarantees	393.4	269.3	240.1	211.0

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	(in millions of RMB)			
Operating lease commitment				
Minimum future operating lease expenses	**517.4**	**514.6**	**—**	**—**
Within 1 year	101.2	106.6	—	—
1-2 years	93.6	88.8	—	—
2-3 years	90.4	83.6	—	—
3-5 years	114.4	132.9	—	—
Over 5 years	117.8	102.7	—	—
Capital commitment				
Contracted but not provided	24.3	22.6	27.5	21.7
Authorized but not contracted for	—	—	—	—
Total off-balance sheet commitments	**29,287.5**	**24,677.8**	**27,387.7**	**30,077.7**

Our total off-balance sheet commitments decreased by 15.7% from RMB29,287.5 million as of December 31, 2017 to RMB24,677.8 million as of December 31, 2018, primarily due to the decrease in business scale as a result of the business conversion of the bank acceptances into the working capital loan.

Our total off-balance sheet commitments increased by 11.0% from RMB24,677.8 million as of December 31, 2018 to RMB27,387.7 million as of December 31, 2019 and further increased by 9.8% to RMB30,077.7 million as of March 31, 2020, primarily due to the expansion of the bank acceptance business.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the face value of our known contractual obligations by remaining contract maturity classified into the categories specified below as of March 31, 2020. For the remaining maturities of our assets and liabilities as of March 31, 2020, please see "— Liquidity".

	As of March 31, 2020			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)			
On-balance sheet				
Interbank deposits issued	21,670.5	—	—	21,670.5
Financial bonds issued	1,998.2	—	—	1,998.2
Tier-two capital bonds issued	—	—	4,994.2	4,994.2
Subordinated bonds issued	—	—	—	—
Subtotal	**23,668.7**	**—**	**4,994.2**	**28,662.9**

	As of March 31, 2020			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)			
Off-balance sheet				
Acceptances	27,049.6	—	—	27,049.6
Letters of credit	1,563.8	—	—	1,563.8
Letters of guarantees	124.8	85.8	0.4	211.0
Loan commitments	—	—	—	—
Credit card unused overdraft	1,231.6	—	—	1,231.6
Subtotal	**29,969.8**	**85.8**	**0.4**	**30,056.0**
Total	**53,638.5**	**85.8**	**4,994.6**	**58,718.9**

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with certain of our related parties, such as taking deposits from, extending credit facilities to, and providing other banking services to, the related parties. These transactions were conducted on normal commercial terms and in the ordinary course of our business. Our Directors believe that these related party transactions were carried out on an arm's length basis and would not distort our results of operations during the Track Record Period or cause such results not to be reflective of our future performance. For more details, please see Note 39 to the Accountants' Report in Appendix I to this prospectus.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk of financial loss arising from changes in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, equity prices and commodity prices and other market changes that affect market risk-sensitive instruments. We are exposed to market risk primarily through the assets and liabilities on our balance sheet, as well as our off-balance sheet commitments and guarantees. The market risk to which we are primarily exposed is interest rate risk.

Interest Rate Risk

The primary source of our interest rate risk arises from mismatches in the maturities or repricing periods of our banking book. Maturity mismatches may cause net interest income to be affected by changes in the prevailing level of interest rates. Currently, we primarily use gap analysis and sensitivity analysis to assess our exposure to interest rate risk. In addition, different pricing bases for different assets and liabilities may also lead to interest rate risk for our assets and liabilities within the same repricing period. We manage our interest rate risk exposure primarily by adjusting the maturity profile and repricing pattern of our banking book based on our assessment of potential changes in the interest rate environment.

Repricing Gap Analysis

The following table sets forth, as of March 31, 2020, the results of our gap analysis based on the earlier of (i) the next expected repricing dates, and (ii) the final maturity dates for our assets and liabilities:

	As of March 31, 2020					
	No interest bearing	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	(in millions of RMB)					
Assets						
Cash and deposits with the central bank	—	19,256.1	—	—	—	19,256.1
Deposits with banks and other financial institutions	0.1	1,064.8	—	—	—	1,064.9
Placements with banks and other financial institutions	1.2	566.8	—	—	—	568.0
Financial assets held under resale agreements	—	—	—	—	—	—
Loans and advances to customers	737.5	13,778.6	37,349.2	27,600.7	21,739.7	101,205.7
Financial investments	2,785.3	6,739.2	12,127.4	43,281.8	29,970.9	94,904.6
Others[(1)]	299.1	2,695.5	4,350.4	9,921.3	1,024.6	18,290.9
Total assets	**3,823.2**	**44,101.0**	**53,827.0**	**80,803.8**	**52,735.2**	**235,290.2**
Liabilities						
Borrowing from the central bank	3.4	2,191.2	3,113.7	—	—	5,308.3
Deposits from banks and other financial institutions	599.3	1,655.0	2,610.0	—	—	4,864.3
Placements from banks and other financial institutions	204.6	710.0	11,094.3	—	—	12,008.9
Financial assets sold under repurchase agreements	0.2	5,066.9	727.7	—	—	5,794.8
Deposits from customers	1,760.7	68,945.9	31,831.7	53,755.3	341.5	156,635.1
Debt securities issued	155.3	7,902.0	15,373.9	392.8	4,994.2	28,818.2
Others[(2)]	467.5	1,104.8	1,076.4	972.6	84.8	3,706.1
Total liabilities	**3,191.0**	**87,575.8**	**65,827.7**	**55,120.7**	**5,420.5**	**217,135.7**
Repricing gap	**632.2**	**(43,474.8)**	**(12,000.7)**	**25,683.1**	**47,314.7**	**18,154.5**

Notes:

(1) Consisted primarily of finance lease receivables, property and equipment, deferred tax assets and other assets.

(2) Consisted primarily of income tax payables and other liabilities.

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. The following table sets forth, as of the dates indicated, the results of our interest rate sensitivity analysis based on our assets and liabilities at the same date:

	As of December 31,						As of March 31,	
	2017		2018		2019		2020	
	Net profit	Equity	Net profit	Equity	Net profit	Equity	Net profit	Equity
	(in millions of RMB)							
+100 basis-point. .	185.1	211.3	192.2	281.5	295.3	382.1	103.7	272.1
-100 basis-point . .	(185.1)	(211.3)	(192.2)	(281.5)	(295.3)	(382.1)	(103.7)	(272.1)

Based on our assets and liabilities as of December 31, 2019, if interest rates decrease by 100 basis points instantaneously, our net profit for the year ended December 31, 2019 would decrease by RMB295.3 million, and if interest rates increase by 100 basis points instantaneously, our net profit for the year ended December 31, 2019 would increase by RMB295.3 million. Based on our assets and liabilities as of December 31, 2019, if interest rates increase by 100 basis points instantaneously, our shareholder's equity as of December 31, 2019 would increase by RMB382.1 million, and if the interest rates decrease by 100 basis points instantaneously, our shareholders' equity as of December 31, 2019 would decrease by RMB382.1 million.

We conduct interest rate sensitivity analysis based on the following assumptions: the yield curve moves parallel to interest rate changes; the asset and liability portfolio has a static interest rate risk structure and all positions will be retained and rolled over upon maturity. However, the following factors are not taken into account: change of business after the balance sheet date; the impact of interest rate changes on customer behavior; relationships between complex structural products and interest rate changes; the impact of changes in interest rates on market prices; the impact of changes in interest rates on off-balance sheet products; and the impact of risk management approaches.

CAPITAL EXPENDITURE

Our capital expenditure during the Track Record Period primarily related to the renovation of our branch and sub-branch outlets, purchases of self-service banking equipment, and development of our information systems.

Our capital expenditure amounted to RMB81.2 million, RMB72.9 million, RMB73.6 million and RMB9.5 million in 2017, 2018, 2019 and for the three months ended March 31, 2020, respectively. As of March 31, 2020, we had authorized capital commitments of RMB21.7 million, all of which have been contracted for.

INDEBTEDNESS

As of July 31, 2020 (being the date for the purpose of this indebtedness statement, before this prospectus is printed), we have the following indebtedness:

- certificates of interbank deposit in an aggregate principal amount of RMB26,150.0 million;
- tier-two capital bonds in an aggregate principal amount of RMB5,000.0 million;
- financial bonds in an aggregate principal amount of RMB2,000.0 million;
- lease liabilities in an amount of RMB444.7 million;
- deposits from customers, borrowing from the central bank, deposits and placements from banks and other financial institutions, and financial assets sold under repurchase agreements that arose from the normal course of our banking business; and
- loan commitments, bank acceptances, letters of credit and letters of guarantee issued, other commitments and contingencies that arose from our normal course of banking business.

Except as disclosed above, we did not have, as of July 31, 2020, any material and outstanding mortgages, charges, debentures, other debt capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities. Our Directors have confirmed that there has not been any material change in our indebtedness or contingent liabilities since July 31, 2020 up to the date of this prospectus.

RULE 13.13 TO RULE 13.19 OF THE LISTING RULES

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

DIVIDEND

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders at a general meeting for approval.

Whether to pay dividends, the amount of dividends to be paid or the dividend payout ratio 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. We currently do not have a pre-determined dividend payout ratio. Subject to our Articles of Association and laws and regulations on profit distribution by banks, our Board of Directors will recommend dividend payments to our Shareholders. Under the PRC Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. Pursuant to PRC laws and our Articles of Association, after the Listing, dividends may only be distributed from our distributable profits calculated in accordance with PRC GAAP or IFRS (or the accounting standards of the overseas jurisdictions where our Shares are listed), whichever is lower.

Under PRC laws and our Articles of Association, after the Listing, we may only pay dividends out of our distributable profits, and such distributable profits represent the lowest of (i) our net profit attributable to our Shareholders for a period plus the distributable profit or net of the accumulated losses, if any, at the beginning of such period as determined under PRC GAAP; (ii) the unconsolidated net profit of our Bank for the period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under PRC GAAP; (iii) our net profit attributable to our equity holders for the period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS; and (iv) the unconsolidated net profit of our Bank for the period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS, less:

- appropriations we are required to make to the statutory surplus reserve, which is currently 10% of the unconsolidated net profit of our Bank as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;

- a general reserve we are required to set aside; and

- appropriations to a discretionary surplus reserve as approved by the shareholders in an annual general meeting.

Under relevant MOF regulations, we are required to maintain a general reserve of no less than 1.5% of the balance of our risk-bearing assets from our net profit after tax. This general reserve constitutes part of our reserves. As of March 31, 2020, the balance of our general reserve amounted to RMB2,293.0 million, which was in compliance with the MOF requirements in respect of appropriation of the general reserve.

Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. However, generally we do not pay any dividends in a year in which we do not have any distributable profit in respect of that year. The payment of any dividends by us must also be approved at a shareholders' general meeting. We are prohibited from making any profit distributions to our Shareholders before recovering our accumulated losses and making appropriations to the statutory surplus reserve, the general reserve, and any discretionary surplus reserve as approved at a shareholders' general meeting. If we make any profit distributions in violation of these rules, our Shareholders are required to return the amounts they received in such profit distributions to us.

The CBIRC has the authority to prohibit any bank that fails to meet the relevant capital adequacy ratio requirements, or has violated other relevant PRC banking regulations, from paying dividends or making other forms of distributions. As of March 31, 2020, we had a capital adequacy ratio of 15.05%, a tier-one capital adequacy ratio of 11.05% and a core tier-one capital adequacy ratio of 9.17%, which were all in compliance with the relevant CBIRC regulations. For details, please see "Supervision and Regulation — Supervision Over Capital Adequacy — Regulatory Requirements in respect of Capital Adequacy Ratios".

In 2018 and 2019, we had declared and distributed cash dividends of RMB417.1 million and RMB418.2 million for the year ended December 31, 2017 and 2018, respectively. On February 29, 2020, our Shareholders approved and passed the resolution in respect of the dividends for the year ended December 31, 2019 in a shareholders' general meeting and the Board shall distribute cash dividends of RMB497.1 million in respect of the year ended December 31, 2019.

As of the Latest Practicable Date, our declared but unpaid dividends amounted to RMB1.6 million, mainly comprising (i) dividends payable to shareholders that we were unable to contact in the sum of RMB1.3 million, and (ii) dividends payable to shareholders who did not timely claim the dividends in the sum of RMB0.3 million. We intend to use our internal funds to pay these declared but unpaid dividends after locating relevant shareholders, in accordance with relevant PRC laws and regulations.

Under the PRC laws and our Articles of Association, we may only declare dividends out of our distributable profits determined under PRC GAAP or under IFRS (whichever is the lower). Under the current PRC GAAP and IFRS, we do not expect there is any material difference between our net profit prepared in accordance with PRC GAAP and IFRS which may materially impact the amount of dividend that we can declare unless new accounting standards or related amendment under PRC GAAP and IFRS are issued which would result in different adoption time and resulted in non-convergence between these two accounting standards.

Under the Resolution on Distribution of Profits Accumulated before Listing by Weihai City Commercial Bank Co., Ltd. (《威海市商業銀行股份有限公司關於上市前滾存利潤分配方案的議案》) approved by our Shareholders on February 29, 2020, both current and new Shareholders are entitled to our accumulated retained earnings prior to the Listing, subject to compliance with our Articles of Association and relevant regulatory requirements.

Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size dividends will be paid in the future.

LISTING EXPENSES

The listing expenses to be borne by us are estimated to be approximately RMB94.9 million, representing approximately 3.6% of the proceeds raised from the Global Offering, (equivalent to approximately HK$108.8 million, assuming the Over-allotment Option is not exercised and the mid-point of the indicative Offer Price range of HK$3.43). None of the listing expenses were reflected in our statements of profit or loss and other comprehensive income during the Track Record Period. After March 31, 2020, approximately RMB8.0 million is expected to be charged to our consolidated statements of profit or loss and other comprehensive income, and approximately RMB86.9 million is expected to be accounted for as a deduction from equity upon the Listing. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such listing expenses to have a material adverse impact on our results of operations for the year ended December 31, 2020.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets is prepared based on our net tangible assets attributable to our Shareholders as of March 31, 2020 derived from our financial information as of March 31, 2020 as set out in the Accountants' Report set forth in Appendix I to this prospectus, adjusted as described below.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared to show the effect on our consolidated net tangible assets as of March 31, 2020 as if the Global Offering had occurred on March 31, 2020. The unaudited pro forma adjusted consolidated net tangible assets per share are calculated in accordance with paragraph 4.29 of the Listing Rules.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, as a result, may not be an accurate reflection of our financial position.

	Consolidated net tangible assets attributable to Shareholders of the Bank as of March 31, 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Bank	Unaudited pro forma adjusted consolidated net tangible assets per H Share	
	RMB Million Note[(1)]	RMB Million Notes[(2)/(5)]	RMB Million Note[(3)]	RMB Note[(4)]	HK$ Notes[(5)]
Based on an offer price of HK$3.35 per H Share . . .	14,456.5	2,468.9	16,925.4	2.89	3.31
Based on an offer price of HK$3.51 per H Share . . .	14,456.5	2,589.7	17,046.2	2.91	3.34

Notes:

(1) The consolidated net tangible assets attributable to Shareholders of the Bank as of March 31, 2020 are based on the consolidated total equity of the Bank of RMB14,493.0 million, after deduction of intangible assets of RMB36.5 million.

(2) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted consolidated net tangible assets are based on the Offer Price of HK$3.35 per H Share (being the low-end of the proposed Offer Price range) and HK$3.51 per H Share (being the high-end of the proposed Offer Price range) and there are 877,271,000 H Shares newly issued in the Global Offering, after deduction of the underwriting fees and other related listing expenses payable by the Bank and taking no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Bank do not take into account the financial results or other transactions of the Group subsequent to March 31, 2020.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share are arrived at after the adjustments for the estimated net proceeds from the Global Offering as described in Note (2) and on the basis of 5,848,468,344 Shares in issue assuming that the Global Offering has been completed on March 31, 2020, and taking no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.

(5) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted consolidated net tangible assets per Share are translated into or from Renminbi at the rate of RMB0.8721 to HK$1, the exchange rate set by the PBoC prevailing on September 18, 2020. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

From March 31, 2020 and up to the Latest Practicable Date, we issued certificates of interbank deposit in an aggregate principal amount of RMB17,130.0 million. For details, please see "— Capital Resources — Debt — Debt Securities Issued".

Since early 2020, there have been outbreaks of COVID-19 over the world, including PRC, Hong Kong, U.S. and various countries in the Europe. World Health Organization has since declared COVID-19 as pandemic on March 11, 2020. To prevent the transmission of COVID-19 within our Group and our community, in line with our effort to provide a safe working environment for all our employees, we have promptly taken precautionary measures, including providing technical support for employees to work from home, distribution of protective masks to our onsite employees, temperature screening at entry of office buildings, hand and desk sanitizing and disinfection of common areas, advising our staff to avoid unnecessary travel to areas affected by the COVID-19 outbreak and crowded places, maintaining good indoor ventilation. As of the Latest Practicable Date, we had not experienced any material interruption to our business operations, and subject to the local government policies, all our outlets in Shandong Province and Tianjin municipality had resumed business operation. To the best of the knowledge of our Directors, since the onset of the COVID-19 outbreak and up to the Latest Practicable Date, there had been no confirmed case of COVID-19 infection among our employees or instance in which any of our employees was unable to report to work as a result of the COVID-19 outbreak.

In order to counter the impact of the COVID-19, the PRC Government has introduced a wide range of fiscal and monetary easing initiatives and supportive measures with the aim of encouraging banks and financial institutions to enhance their credit support to affected enterprises and individuals and to try to cushion the economic blow from the pandemic. In prompt response to these initiatives and supportive measures, we have launched some special supportive measures as well for our qualified customers. For details of initiatives and support measures introduced by the PRC Government and our Bank, please see "Summary – Recent Developments".

Given the limited scope of application of the special supportive measures introduced by us, as well as the severity of the COVID-19 outbreak in Shandong Province and in Tianjin Municipality, at this stage we consider that the above measures in response to the pandemic have only an immaterial impact on our business operation, our liquidity position, asset quality and the maturity profile of our loan portfolio based on the following reasons: (i) since March 2020, industries and enterprises in Shandong Province, Tianjin Municipality as well as in the PRC have gradually resumed operations and productions; (ii) the COVID-19 outbreak was less severe in Shandong Province and Tianjin Municipality compared to Hubei Province and since March 2020, Shandong Province and Tianjin Municipality have reported a decrease in confirmed infection cases; (iii) as of Latest Practicable Date, we had not experienced any material interruptions to our business operations and all of our outlets in Shandong Province and Tianjin Municipality have resumed business operations; and (iv) for the three months ended March 31, 2020, our net interest income and net profit increased compared to the three months ended March 31, 2019.

In order to illustrate the impact of the COVID-19 on our business operation and financial condition, we use the following sensitivity analysis to measure the potential effect of changes in our impairment loss allowance on our profit before tax and net profit. The following table sets forth the results of our impairment loss allowance sensitivity analysis based on our profit before tax and net profit for the year ended December 31, 2019:

Impairment loss allowance increased by:	Profit Before Tax	Net Profit
	(In million of RMB)	
0.05%	(60.6)	(45.4)
0.10%	(121.1)	(90.8)
0.15%	(181.7)	(136.3)
0.20%	(242.2)	(181.7)
0.25%	(302.7)	(227.0)

Based on our profit before tax and net profit for the year ended December 31, 2019, for every five basic points increase in impairment loss allowance (assuming all other variables being constant), our profit before tax and net profit for the year ended December 31, 2019 would decrease by RMB60.6 million and RMB45.4 million, respectively.

We will continue to monitor the development of the COVID-19 outbreak, assess and actively respond to its impact on our customers, business operations, financial condition, and results of operations. For details, please see "Risk Factors – Risks Relating to our Business – The recent outbreak of the contagious COVID-19 may have an adverse effect on our business, financial condition and results of operations".

Notwithstanding the outbreak of pandemic, our Directors confirm that there has been no material adverse impact to our financial or operational position from March 31, 2020 to the date of this prospectus.

WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of Part A of Appendix 1A to the Listing Rules require this document to include a statement by our Directors that, in their opinion, the working capital available to our Bank is sufficient for at least 12 months from the publication of this document or, if not, how it is proposed to provide the additional working capital our Directors consider to be necessary. We are of the view that the traditional concept of "working capital" does not apply to banking businesses such as ours. We are regulated in the PRC by, among others, the PBoC and the CBIRC. 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 prudent supervision by another regulatory body. In view of the above, pursuant to Rule 8.21A(2) of the Listing Rules we are not required to include a working capital statement from the directors in this document.

FUTURE PLANS

Please see the section entitled "Business — Our Development Strategies" in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK$3.35, being the low-end of the proposed Offer Price range, we estimate that the net proceeds of the Global Offering accruing to us (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to be approximately HK$2,831.0 million, if the Over-allotment Option is not exercised; or approximately HK$3,266.0 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK$3.43, being the mid-point of the proposed Offer Price range of HK$3.35 to HK$3.51, we estimate that the net proceeds of the Global Offering accruing to us (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to be approximately HK$2,900.2 million, if the Over-allotment Option is not exercised; or to be approximately HK$3,345.7 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK$3.51, being the high-end of the proposed Offer Price range, we estimate that the net proceeds of the Global Offering accruing to us (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to be approximately HK$2,969.5 million, if the Over-allotment Option is not exercised; or to be approximately HK$3,425.4 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

Huatai Financial Holdings (Hong Kong) Limited

China International Capital Corporation Hong Kong Securities Limited

CMB International Capital Limited

CSFG International Securities Limited

Forthright Securities Company Limited

Sheng Yuan Securities Limited

Zhongtai International Securities Limited

CCB International Capital Limited

ABCI Securities Company Limited

ICBC International Securities Limited

Haitong International Securities Company Limited

AMTD Global Markets Limited

Maxa Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Bank is offering initially 87,728,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Hong Kong Stock Exchange granting approval for listing of, and permission to deal in, the H Shares in issue and to be offered as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally 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, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, amongst other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If at any time prior to 8:00 a.m. on the day that trading in the H Shares commences on the Stock Exchange:

- there develops, occurs, exists or comes into force:

  - any new law or regulation or any change or development involving a prospective change or any event or series of events or circumstance likely to result in a change or a development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Singapore, the United States, the United Kingdom, the European Union (or any member thereof), Japan or any other jurisdictions relevant to the Bank or the Global Offering (each a "**Relevant Jurisdiction**"); or

  - any change or development involving a prospective change or development, or any event or series of events or circumstance 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, credit, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, and inter-bank and credit markets and 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 Hong Kong dollars or of the RMB against any foreign currencies) in or affecting any Relevant Jurisdiction; or

  - any event or series of events or circumstance in the nature of force majeure (including, without limitation, acts of government, labor disputes, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, outbreak of diseases or epidemics, economic sanction) in or directly or indirectly affecting any Relevant Jurisdiction; or

- any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or

- any moratorium, suspension or limitation (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the Nasdaq Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or

- any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Governmental Authority), New York (imposed at Federal or New York State level or other competent Governmental Authority), London, Singapore, the PRC, the European Union (or any member thereof) or Japan or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or

- any (A) change or development involving a prospective change in exchange controls or the implementation of any exchange control, in any of the Relevant Jurisdictions or affecting an investment in the Offer Shares, or (B) any change or development involving a prospective change in taxation in any Relevant Jurisdiction; or

- the issue or requirement to issue by the Bank of a supplemental or amendment to this prospectus, Application Forms, preliminary offering circular or offering circular or other documents in connection with the offer of the H Shares pursuant to the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance or the Hong Kong Listing Rules or upon any requirement or request of the Hong Kong Stock Exchange or the SFC; or

- any change or development involving a prospective change which has the effect of materialization of any of the risks set out in the section headed "Risk Factors" in this prospectus; or

- any Proceedings (as defined in the Hong Kong Underwriting Agreement) being threatened or instigated against any member of the Group or any Director; or

- a Governmental Authority (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction commencing any Proceedings, or announcing an intention to commence any Proceedings, against any member of the Group or any Director; or

- any of the chairman or president vacating his office, any executive Director being charged with an indictable offence or prohibited by operation of laws or otherwise disqualified from taking part in the management of a company; or

- any contravention by any member of the Group or any Director of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFO, the PRC Company Law, the Hong Kong Listing Rules or applicable laws; or

- any demand by creditors for repayment of indebtedness or a petition being presented for the winding-up or liquidation of any member of the Group, or any member of the Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

- a prohibition on the Bank for whatever reason from offering, allotting or selling the H Shares (including the Offer Shares issued and allotted pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering; or

- the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction;

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters): (A) is or will be or may be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of the Bank or the Group as a whole; or (B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares; or (C) makes or will make it or may make it impracticable or inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the Formal Notice, the preliminary offering circular or the offering circular, and/or to perform or implement any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering as envisaged; or (D) would have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents or delays the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- there has come to the notice of any of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:

  - that any statement contained in the Offering Documents (as defined in the Hong Kong Underwriting Agreement), the Application Proof (as defined in the Hong Kong Underwriting Agreement), the PHIP (as defined in the Hong Kong Underwriting Agreement) and/or any notices, announcements, advertisements, communications issued or used by or on behalf of the Bank in connection with the Global Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect in any material respect or misleading or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Offering Documents, the Application Proof, the PHIP and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and not made on reasonable grounds or, where appropriate, not based on reasonable assumptions, when taken as a whole; or

  - non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Hong Kong Listing Rules or any other applicable law in any material respect; or

  - any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or

  - either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Bank 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 or misleading; or

  - that any of the Experts (as defined in the Hong Kong Underwriting Agreement) (other than the Joint Sponsors) has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement); or

  - any event, act or omission which gives or is likely to give rise to any liability of the Bank pursuant to the indemnities given by the Bank under the Hong Kong Underwriting Agreement; or

- any litigation or dispute or potential litigation or dispute, which would materially and adversely affect the operation or financial condition of the Group as a whole; or

- any material breach of any of the obligations of the Bank under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

- any material adverse change or prospective material adverse change or development involving a prospective material adverse change in the assets, business, general affairs, management, shareholder's equity, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of the Group, as a whole; or

- 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

- the Bank has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering;

then the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) and the Joint Sponsors may, in their sole and absolute discretion and upon giving prior notice in writing to the Bank, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules

Undertakings by Our Bank

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that we will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the 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, conversion of unlisted foreign shares into H shares or any of the circumstances provided under Rule 10.08 of the Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Hong Kong Listing Rules, our Controlling Shareholders have undertaken to us and to the Hong Kong Stock Exchange that:

(i) at any time in the period commencing on the date by reference to which disclosure of their shareholding in the Bank is made in this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-month Period**"), they shall not and shall procure the relevant registered holder(s) shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which they are shown by this prospectus to be the beneficial owner (as defined in the Hong Kong Listing Rules); or

(ii) at any time in the period of six months commencing on the date on which the First Six-month Period expires (the "**Second Six-month Period**"), they shall not and shall procure the relevant registered holder(s) shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, they would cease to be a group controlling shareholder (as defined in the Hong Kong Listing Rules) of the Bank.

In addition, pursuant to Note (3) to Rule 10.07(2) of the Hong Kong Listing Rules, our Controlling Shareholders have also undertaken to the Hong Kong Stock Exchange and us that, within the period commencing on the date by reference to which disclosure of their shareholding in the Bank is made in this prospectus and ending on the date which is 12 months from the Listing Date, they will:

(i) when they pledge or charge any of Shares or other securities of the Bank beneficially owned by them, whether directly or indirectly, in favor of any authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and

(ii) when they receive any indications, either verbal or written, from any pledgee or chargee of any of Shares or of other securities of the Bank pledged or charged that such Shares or securities will be disposed of, immediately inform us in writing of any such indications.

We will inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by our Controlling Shareholders and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Hong Kong Listing Rules as soon as possible.

Undertakings to the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement

Undertakings by Our Bank

Except pursuant to the Global Offering (including pursuant to the Over-allotment Option), we have also undertaken to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including the date falling six months from the Listing Date ("**First Six-month Period**"), we will not, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules:

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other 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 represent 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

(ii) 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 any share capital or any other securities of the Bank or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any share capital or other securities of the Bank, as applicable or any interest in any of the foregoing); or

(iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or

(iv) offer to or agree to do, or announce any intention to effect, any of the foregoing, in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise (whether or not the issue of such share capital or other securities will be completed within the First Six-month Period).

The Bank has further agreed that, in the event the Bank enters into any of the transactions specified above or offers to or agrees to or announces any intention to effect any such transaction after the First Six-month Period, it will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of the Bank will, create a disorderly or false market for any Shares or other securities of the Bank.

Indemnity

Our Bank has agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Bank of the Hong Kong Underwriting Agreement.

The International Offering

In connection with the International Offering, it is expected that our Bank will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, among others, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers for, or themselves to subscribe for or purchase their respective proportions of the International Offer Shares initially being offered pursuant to the International Offering.

Our Bank is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Bank to issue and allot up to an aggregate of 131,590,000 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover over allocations (if any) in the International Offering.

It is expected the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Commission and Expenses

The Underwriters will receive an underwriting commission equal to 0.8% of the aggregate Offer Price in respect of all of the Offer Shares for both the Hong Kong Public Offering and the International Offering (including any Offer Shares to be issued by the Bank pursuant to the exercise of the Over-allotment Option). For any Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission shall not be paid to the Hong Kong Underwriters as the relevant underwriting commission relating to such Offer Shares will be payable to the International Underwriters in accordance with the International Underwriting Agreement. In addition, the Bank may at its sole and absolute discretion pay to the Underwriters for their respective accounts an incentive fee of up to an aggregate of no more than 0.5% of the aggregate Offer Price in respect of all of the Offer Shares for both the Hong Kong Public Offering and the International Offering (including any Offer Shares to be issued by the Bank pursuant to the exercise of the Over-allotment Option).

Assuming an Offer Price of HK$3.43 per H Share (being the mid-point of the indicative Offer Price range), the aggregate commissions and fees (assuming the full payment discretionary incentive fee and no exercise of the Over-allotment Option), together with listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by our Bank relating to the Global Offering are estimated to be approximately HK$108.8 million in total. Such commissions, fees and expenses are payable by our Bank.

The commission and expenses were determined after arm's length negotiation between our Bank and the Underwriters or other parties by reference to the current market conditions.

HONG KONG UNDERWRITERS' INTERESTS IN THE BANK

Save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Bank or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Bank.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

JOINT SPONSORS' INDEPENDENCE

Each of the Joint Sponsors satisfies the independence criteria set out in Rule 3A.07 of the Hong Kong Listing Rules.

RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than in Hong Kong. Accordingly, this prospectus 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. In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in China and the U.S.

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 business, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of our Bank and/or persons and entities with relationships with our Bank and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group's loans and other debt.

In relation to the H Shares, the activities of the Syndicate Members and their affiliates 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, including as a lender to initial purchasers of the H Shares (which financing may be secured by the H Shares) in the Global Offering, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed or 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. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares, which may have a negative impact on the trading price 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 Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the relevant 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 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 Shares, the liquidity or trading volume in the Shares and the volatility of the price of the 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 any person acting for it) 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.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Bank and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises (subject to adjustment and the Over-allotment Option):

(i) the Hong Kong Public Offering of 87,728,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described below in "The Hong Kong Public Offering" in this section below; and

(ii) the International Offering of an aggregate of 789,543,000 Offer Shares (subject to reallocation as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S.

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

The Offer Shares will represent approximately 15% of the enlarged registered 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 registered share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the paragraph headed "— The International Offering — Over-allotment Option" in this section below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in "— The Hong Kong Public Offering — Reallocation" in this section below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares Initially Offered

Our Bank is initially offering 87,728,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Offer Shares will represent approximately 1.50% of the Bank's registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in "— Conditions of the Hong Kong Public Offering" in this section below.

Allocation

The total number of Offer Shares initially available under the Hong Kong Public Offering (after taking into account of any reallocation referred to below) is to be divided into two pools for allocation purposes: 43,864,000 Offer Shares for pool A and 43,864,000 Offer Shares for pool B. The Offer Shares in pool A will be allocated on an equitable basis to successful applicants who have applied for Offer Shares with an aggregate price of HK$5 million (excluding 1% brokerage, 0.0027% SFC transaction levy and 0.005% Hong Kong Stock Exchange trading fee payable) or less.

The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK$5 million (excluding 1% brokerage, 0.0027% SFC transaction levy and 0.005% 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 Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. In addition, multiple or suspected multiple applications and any application for more than 43,864,000 Offer Shares, being 50% of Offer Shares initially allocated in the Hong Kong Public Offering, are liable to be rejected.

Allocation of Offer Shares to investors under the Hong Kong Public Offering, both in relation to pool A and B, will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The 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.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. 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.

If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times and (c) 100 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 263,182,000 Offer Shares (in the case of (a)), 350,910,000 Offer Shares (in the case of (b)) and 438,636,000 Offer Shares (in the case of (c)), representing approximately 30%, 40% and 50% of the total number of Offer Shares initially available under the Global Offering, respectively (before exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

In addition, the Joint Global Coordinators may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, in the event that (i) the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offer Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed as to less than 15 times of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, provided that the Offer Price would be set at HK$3.35 (low-end of the indicative Offer Price range), up to 87,728,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 175,456,000 Offer Shares, representing approximately 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

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

The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and 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 the applicant (or any person for whose benefit he is making the application) has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$3.51 per H Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in "Pricing of the Global Offering" in this section below, is less than the maximum price of HK$3.51 per H Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in "How to Apply for Hong Kong Offer Shares."

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

THE INTERNATIONAL OFFERING

Number of Offer Shares Offered

Subject to reallocation as described above, the International Offering will consist of an initial offering of 789,543,000 International Offer Shares representing approximately 90% of the Offer Shares to be offered by us under the Global Offering and approximately 13.50% of the 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 Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in "— Pricing of the Global Offering" in this section below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Bank and its shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we are expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the Joint Global Coordinators have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging applications under the Hong Kong Public Offering, to require our Bank to issue and allot up to 131,590,000 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover 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.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building" is expected to continue up to, and to cease on or 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 Tuesday, October 6, 2020 and in any event on or before Friday, October 9, 2020, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Bank 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$3.51 per H Share and is expected to be not less than HK$3.35 per H Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Joint Global Coordinators (for themselves and 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 written consent of our Bank, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such case, our Bank will, as soon as practicable following the decision to make any 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 on the websites of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Bank at **http://www.whccb.com/** of any such reduction in the number of the Offer Shares being offered under the Global Offering and/or the indicative offer price range and will, as soon as practicable following the decision to make such reduction, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range, extend the period under which the Hong Kong Public Offering was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Hong Kong Offer Shares the right to withdraw their applications under the Hong Kong Public Offering. Such notice and supplemental prospectus will also include confirmation or revision, as appropriate, of the offering statistics, and the future plans and use of proceeds as currently set out in "Summary" and any other financial information which may change as a result of such reduction.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of the Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

If the number of Offer Shares and/or the indicative Offer Price range is so reduced, applicant(s) who have already submitted an application will be notified that they are required to confirm their applications. All applicant(s) who have already submitted an application need to confirm their applications in accordance with the procedures set out in the supplemental prospectus and all unconfirmed applications will not be valid. In the absence of any notice published in relation to the reduction in the Offer Price, the Offer Price, if agreed upon with our Bank and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) will under no circumstances be set outside the offer price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of H Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

The net proceeds of the Global Offering accruing to our Bank (after deduction of underwriting fees and estimated expenses payable by our Bank in relation to the Global Offering and assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$2,969.5 million, assuming an Offer Price per H Share of HK$3.51, or approximately HK$2,831.0 million, assuming an Offer Price per H Share of HK$3.35 (or if the Over-allotment Option is exercised in full, approximately HK$3,425.4 million, assuming an Offer Price per H Share of HK$3.51, or approximately HK$3,266.0 million, assuming an Offer Price per H Share of HK$3.35).

The Offer Price for H Shares under the Global Offering is expected to be announced on Friday, October 9, 2020.

The indications of interest in the Global Offering, the results of applications and the basis of allocation of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Friday, October 9, 2020 on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and on the website of the Bank at **http://www.whccb.com/**.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong, 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 it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in compliance with all applicable laws, rules and regulatory requirements in place. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, or its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

The Stabilizing Manager, its affiliates or any person acting for it may take all or any of the following stabilizing actions permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO during the stabilization period:

(i) purchase, or agree to purchase, any of the Offer Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of the Offer Shares;

(ii) in connection with any action described in paragraph (i) above:

  (A) (1) over-allocate the Offer Shares; or (2) sell or agree to sell the Offer Shares so as to establish a short position in them;

  (B) purchase or subscribe for or agree to purchase or subscribe for the Offer Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (A) above;

  (C) sell or agree to sell any of the Offer Shares to liquidate a long position held as a result of those purchases; or

  (D) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B) or (ii)(C) above.

The Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Offer Shares, and there is no certainty regarding the extent to which and the time period for which it will maintain any such position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilizing Manager, its affiliates or any person acting for it and selling in the open market, which may include a decline in the market price of the Offer Shares.

Stabilization cannot be used to support the price of the Offer Shares for longer than the stabilization period, which begins on the day on the Listing Date and ends on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. The stabilization period is expected to expire on Thursday, November 5, 2020. After this date, when no further stabilization action may be taken, demand for the H Shares, and therefore their market price, could fall.

Any stabilizing action taken by the Stabilizing Manager, its affiliates or any person acting for it may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilization period. Stabilizing bids or market purchases effected in the course of the stabilization action may be made at any price at or below the Offer Price and can therefore be done at a price below the price the investor has paid in acquiring the Offer Shares.

In connection with the Global Offering, the Joint Global Coordinators may over-allocate up to and not more than an aggregate of 131,590,000 additional H Shares (representing approximately 15% of the number of Offer Shares initially available under the Global Offering) and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

Our Bank will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

H SHARES WILL BE ELIGIBLE FOR 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, HKSCC will accept H Shares as eligible securities 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 Monday, October 12, 2020, it is expected that dealings in the Offer Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Monday, October 12, 2020. Our H Shares will be traded in board lots of 1,000 H Shares each and the stock code will be 9677.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares to be issued (including any additional Offer Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering; and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange;

(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,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between our Bank and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering will not proceed.

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 on the websites of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Bank at **http://www.whccb.com/** on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares." In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.hk**; 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 Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** for the Hong Kong Offer Shares.

Unless permitted by the Hong Kong 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, supervisor or chief executive officer of the Bank and/or any of its subsidiaries;
- a connected person (as defined in the Hong Kong Listing Rules) of the Bank or will become a core connected person of the Bank immediately upon completion of the Global Offering;
- an associate (as defined in the Hong Kong Listing Rules) of any of the above; or
- 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 Tuesday, September 29, 2020 till 12:00 noon on Tuesday, October 6, 2020 from:

(i) any of the following offices of the Joint Bookrunners:

Huatai Financial Holdings (Hong Kong) Limited	62/F, The Center 99 Queen's Road Central Hong Kong
China International Capital Corporation Hong Kong Securities Limited	29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
CMB International Capital Limited	45/F, Champion Tower 3 Garden Road Central, Hong Kong
CSFG International Securities Limited	Room 701, 7/F, Southland Building 48 Connaught Road Central Central, Hong Kong
Forthright Securities Company Limited	19-20/F, BOC Group Life Assurance Tower 134-136 Des Voeux Road Central, Hong Kong
Sheng Yuan Securities Limited	Room 2202, 22/F No. 238 Des Voeux Road Central Hong Kong
Zhongtai International Securities Limited	19th Floor, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
CCB International Capital Limited	12/F, CCB Tower 3 Connaught Road Central Central, Hong Kong
ABCI Capital Limited	11/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong

ICBC International Capital Limited	37/F, ICBC Tower 3 Garden Road Hong Kong
Haitong International Securities Company Limited	22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
AMTD Global Markets Limited	23-25/F Nexxus Building 41 Connaught Road Central Hong Kong

(ii) any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

Hong Kong Island	Lee Chung Street Branch	29-31 Lee Chung Street, Chai Wan, Hong Kong
	Wan Chai (Wu Chung House) Branch	213 Queen's Road East, Wan Chai, Hong Kong
Kowloon	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei, Kowloon
	Castle Peak Road (Cheung Sha Wan) Branch	365-371 Castle Peak Road, Cheung Sha Wan, Kowloon
New Territories	Citywalk Branch	Shop 65 & 67-69 G/F, Citywalk, 1 Yeung Uk Road, Tsuen Wan, New Territories
	Yuen Long (Hang Fat Mansion) Branch	8-18 Castle Peak Road, Yuen Long, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, September 29, 2020 till 12:00 noon on Tuesday, October 6, 2020 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 — WEIHAI CITY COMMERCIAL BANK PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Tuesday, September 29, 2020	–	9:00 a.m. to 5:00 p.m.
Wednesday, September 30, 2020	–	9:00 a.m. to 5:00 p.m.
Saturday, October 3, 2020	–	9:00 a.m. to 1:00 p.m.
Monday, October 5, 2020	–	9:00 a.m. to 5:00 p.m.
Tuesday, October 6, 2020	–	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, October 6, 2020, the last application day or such later time as described in "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 authorise the Bank and/or the Joint Global Coordinators(or their agents or nominees), as agents of the Bank, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) **agree** to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law and the Articles of Association;

(iii) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) **confirm** that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) **confirm** that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) **agree** that none of the Bank, the Joint Global Coordinators, the 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 Offer Shares under the International Offering nor participated in the International Offering;

(viii) **agree** to disclose to the Bank, our H Share Registrar, receiving bank, the Joint Global Coordinators, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, **agree** and **warrant** that you have complied with all such laws and none of the Bank, the Joint Global Coordinators 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) **authorise** 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 are eligible to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) **declare** and **represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) **understand** that the Bank and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) **warrant** that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "Who can apply" section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website at **www.eipo.com.hk**. 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 at **www.eipo.com.hk**, you authorise 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 Service

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 Tuesday, September 29, 2020 until 11:30 a.m. on Tuesday, October 6, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, October 6, 2020 or such later time under the "Effects of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, 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 payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Bank and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Commitment to sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2 for each "Weihai City Commercial Bank Co., Ltd." **White Form eIPO** application submitted via **www.eipo.com.hk** to support sustainability.

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 authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Bank, the Joint Global Coordinators and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that the Bank, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise the Bank to place HKSCC Nominees' name on the Bank's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of the Bank, the Joint Global Coordinators, the 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 bank, the Joint Global Coordinators, the Underwriters and/or its respective advisers 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 Company Law, the Special Regulations and the Articles of Association of the Bank;

- agree with the Bank, for itself and for the benefit of each 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 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 of the Bank 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) that H Shares are freely transferable by their holders; and

- authorise 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.

- 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 authorised 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 authorised 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 authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 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[(1)]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, September 29, 2020 – 9:00 a.m. to 8:30 p.m.

Wednesday, September 30, 2020 – 8:00 a.m. to 8:30 p.m.

Saturday, October 3, 2020 – 8:00 a.m. to 1:00 p.m.

Monday, October 5, 2020 – 8:00 a.m. to 8:30 p.m.

Tuesday, October 6, 2020 – 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. Tuesday, September 29, 2020 until 12:00 noon on Tuesday, October 6, 2020 (24 hours daily, except on Tuesday, October 6, 2020, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, October 6, 2020, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

Note:

(1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

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 bank(s), the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Bank, the Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, October 6, 2020 or such later time as described in the"Effect of Bad Weather on the Opening of the Application Lists" in this section.

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 (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for 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 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 "Structure of the Global Offering — Pricing of the Global Offering".

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning; and/or
- Extreme Conditions

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, October 6, 2020. 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 or Extreme Conditions 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, October 6, 2020 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable" of this prospectus, 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 Friday, October 9, 2020 on the Bank's website at **http://www.whccb.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 **http://www.whccb.com/** and the Hong Kong Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Friday, October 9, 2020;

- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Friday, October 9, 2020 to 12:00 midnight on Thursday, October 15, 2020;

- by telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Friday, October 9, 2020, Monday, October 12, 2020, Tuesday, October 13, 2020 and Wednesday, October 14, 2020;

- in the special allocation results booklets which will be available for inspection during opening hours from Friday, October 9, 2020, Saturday, October 10, 2020 and Monday, October 12, 2020 at all the receiving bank's designated 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 through the **White Form eIPO** service, 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 announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Bank or its agents exercise their discretion to reject your application:

The Bank, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the 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 Hong Kong Stock Exchange 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 check or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Bank or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$3.51 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 Hong Kong Public 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 Friday, October 9, 2020.

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 H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Offer 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, H 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 H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or before Friday, October 9, 2020. 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).

H Share certificates will only become valid at 8:00 a.m. on Monday, October 12, 2020 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade H Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s) from Computershare Hong Kong Investor Service 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 Friday, October 9, 2020 or such other date as notified by us on the websites of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Bank at **http://www.whccb.com/**.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised 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 H Share certificate(s) will be sent to the address on the relevant Application Form on or before Friday, October 9, 2020, 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 for collecting refund cheque(s). 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 Friday, October 9, 2020, 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 H 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 Friday, October 9, 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

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 "Publication of Results" above. You should check the announcement published by the Bank and report any discrepancies to HKSCC before Friday, October 9, 2020 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 H Share certificate(s) from Computershare Hong Kong Investor Service 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 Friday, October 9, 2020, or such other date as notified by the Bank on the websites of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Bank at **http://www.whccb.com/** as the date of despatch/collection of H Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your H 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 H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Friday, October 9, 2020 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 dispatched 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 H Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your H 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 Friday, October 9, 2020, 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 Friday, October 9, 2020. You should check the announcement published by the Bank and report any discrepancies to HKSCC before 5:00 p.m. on Friday, October 9, 2020 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 Friday, October 9, 2020. 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 Friday, October 9, 2020.

15. ADMISSION OF THE 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, HKSCC will accept H Shares as eligible securities 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 Hong Kong Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of inclusion in this Prospectus, received from the independent reporting accountants of the Bank, BDO Limited, Certified Public Accountants, Hong Kong.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF WEIHAI CITY COMMERCIAL BANK CO., LTD. AND HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED, CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND CMB INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Weihai City Commercial Bank Co., Ltd. (the "Bank") and its subsidiary (together the "Group") set out on pages I-4 to I-159, which comprises the consolidated statements of financial position as at December 31, 2017, 2018 and 2019 and March 31, 2020 and the statements of the financial position of the Bank as at December 31, 2017, 2018 and 2019 and March 31, 2020 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-159 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Bank dated September 29, 2020 (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.

Directors' responsibility for the Historical Financial Information

The directors of the Bank are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Notes 2(1)-(4) to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Notes 2(1)-(4) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Bank's and the Group's financial position as at December 31, 2017, 2018 and 2019 and March 31, 2020 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Notes 2(1)-(4) to the Historical Financial Information.

Review of Stub Period Comparative Historical Financial Information

We have reviewed the stub period comparative historical financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the three months ended March 31, 2019 and other explanatory information (together the "Stub Period Comparative Historical Financial Information"). The directors of the Bank are responsible for the preparation and presentation of the Stub Period Comparative Historical Financial Information in accordance with the basis of preparation and presentation set out in Notes 2(1)-(4) to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Historical Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review 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 Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Historical Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Notes 2(1)-(4) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information and the Stub Period Comparative Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 35 to the Historical Financial Information which contains information about the dividends paid by the Bank in respect of the Track Record Period.

BDO Limited
Certified Public Accountants
Chan Wing Fai
Practising Certificate no. P05443

Hong Kong
September 29, 2020

I. HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

A CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

Consolidated Statements of Profit or Loss and Other Comprehensive Income

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Years ended December 31,			Three months ended March 31,	
		2017	2018	2019	2019	2020
					(unaudited)	
Interest income		8,385,870	7,259,785	8,957,605	2,052,432	2,491,356
Interest expense		(4,741,567)	(5,357,338)	(5,651,369)	(1,355,520)	(1,559,730)
Net interest income	3	3,644,303	1,902,447	3,306,236	696,912	931,626
Fee and commission income		336,241	370,264	416,384	117,094	136,783
Fee and commission expense		(99,522)	(297,066)	(144,675)	(70,934)	(13,105)
Net fee and commission income	4	236,719	73,198	271,709	46,160	123,678
Net trading (losses)/gains	5	(39,037)	65,340	74,431	59,649	(12,728)
Net gains arising from investment securities	6	44,202	1,773,346	1,294,442	353,072	417,358
Other operating income	7	21,774	19,207	365	3,380	5,189
Operating income		3,907,961	3,833,538	4,947,183	1,159,173	1,465,123
Operating expenses	8	(1,439,186)	(1,348,778)	(1,462,342)	(366,323)	(358,272)
Impairment losses on assets	11	(511,177)	(1,335,286)	(1,671,168)	(346,292)	(634,349)
Profit before tax		1,957,598	1,149,474	1,813,673	446,558	472,502
Income tax expense	12	(354,847)	(132,188)	(290,012)	(70,445)	(80,683)
Net profit for the year/period		1,602,751	1,017,286	1,523,661	376,113	391,819
Net profit for the year/period attributable to:						
Equity shareholders of the Bank		1,566,934	964,398	1,439,696	355,938	359,401
Non-controlling interests		35,817	52,888	83,965	20,175	32,418
		1,602,751	1,017,286	1,523,661	376,113	391,819
Other comprehensive income for the year/period:						
Items that may be reclassified subsequently to profit or loss:						
Financial assets at fair value through other comprehensive income:						
— net movement in the fair value reserve, net of tax	34(d)	—	126,452	23,277	(31,432)	236,824
— net movement in the impairment reserve, net of tax	34(e)	—	4,516	922	1,505	3,605
Available-for-sale financial assets:						
— net movement in the fair value reserve, net of tax	34(d)	(59,849)	—	—	—	—
Items that will not be reclassified subsequently to profit or loss:						
Financial assets at fair value through other comprehensive income:						
— net movement in the fair value reserve, net of tax	34(d)	—	(417)	—	—	(1,446)
Other comprehensive income for the year/period, net of tax		(59,849)	130,551	24,199	(29,927)	238,983
Total comprehensive income for the year/period		1,542,902	1,147,837	1,547,860	346,186	630,802
Total comprehensive income for the year/period attributable to:						
Equity shareholders of the Bank		1,507,085	1,094,949	1,463,895	326,011	598,384
Non-controlling interests		35,817	52,888	83,965	20,175	32,418
		1,542,902	1,147,837	1,547,860	346,186	630,802
Basic and diluted earnings per share (in RMB)	13	0.38	0.23	0.29	0.07	0.07

Consolidated Statements of Financial Position

(Expressed in thousands of Renminbi, unless otherwise stated)

		At December 31,			At March 31,
	Note	2017	2018	2019	2020
Assets					
Cash and deposits with the central bank	*14*	19,149,521	18,464,800	21,203,836	19,256,136
Deposits with banks and other financial institutions	*15*	1,129,495	1,054,852	2,026,908	1,064,931
Placements with banks and other financial institutions	*16*	1,202,293	1,271,929	507,205	567,954
Financial assets held under resale agreements	*17*	15,058,130	1,392,275	5,386,562	—
Loans and advances to customers	*18*	64,797,414	73,316,504	90,111,642	101,205,673
Financial investments:	*19*				
Financial investments at fair value through profit or loss		5,362,537	23,008,735	18,507,144	17,747,069
Financial investments at fair value through other comprehensive income		—	18,520,862	13,899,189	24,395,657
Financial investments at amortised cost		—	52,081,895	56,722,112	52,761,894
Available-for-sale financial assets		6,777,151	—	—	—
Held-to-maturity investments		41,167,293	—	—	—
Investments classified as receivables		38,007,908	—	—	—
Property and equipment	*21*	750,980	723,819	705,505	693,354
Right-of-use assets	*22*	—	—	476,851	497,605
Deferred tax assets	*23*	266,567	591,947	957,751	1,068,244
Other assets	*24*	10,828,632	12,694,267	14,130,816	16,031,668
Total assets		204,497,921	203,121,885	224,635,521	235,290,185
Liabilities and equity					
Liabilities					
Borrowing from the central bank		3,166,428	3,648,371	4,730,937	5,308,289
Deposits from banks and other financial institutions	*26*	2,632,978	7,431,004	5,002,125	4,864,262
Placements from banks and other financial institutions	*27*	6,686,000	10,461,498	10,429,485	12,008,865
Financial assets sold under repurchase agreements	*28*	22,020,150	5,762,553	9,945,309	5,794,846
Deposits from customers	*29*	120,096,009	117,469,732	144,233,973	156,635,066
Income tax payable		85,069	164,007	379,031	467,158
Debt securities issued	*31*	33,412,780	42,942,514	29,624,782	28,818,252
Lease liabilities	*30*	—	—	448,682	453,125
Deferred tax liabilities	*23*	—	—	5,168	70,490
Other liabilities	*32*	5,327,400	1,434,749	1,912,531	2,715,352
Total liabilities		193,426,814	189,314,428	206,712,023	217,135,705
Equity					
Share capital	*33*	4,171,197	4,971,197	4,971,197	4,971,197
Capital reserve	*34 (a)*	1,679,964	3,119,964	3,119,964	3,112,322
Surplus reserve	*34 (b)*	867,004	952,746	1,089,080	1,089,080
General reserve	*34 (c)*	1,573,622	1,726,858	2,079,232	2,293,035
Fair value reserve	*34 (d)*	(54,329)	(53,108)	(29,831)	205,547
Impairment reserve	*34 (e)*	—	8,233	9,155	12,760
Retained earnings	*35*	2,446,058	2,641,088	3,160,582	2,809,060
Total equity attributable to equity shareholders of the Bank		10,683,516	13,366,978	14,399,379	14,493,001
Perpetual bonds	*34 (f)*	—	—	2,999,675	2,999,675
Non-controlling interests		387,591	440,479	524,444	661,804
Total equity		11,071,107	13,807,457	17,923,498	18,154,480
Total liabilities and equity		204,497,921	203,121,885	224,635,521	235,290,185

Consolidated Statements of Changes in Equity

(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank								
	Notes	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at January 1, 2017		4,171,197	1,679,964	716,962	1,308,480	5,520	1,919,988	9,802,111	351,774	10,153,885
Changes in equity for the year:										
Net profit for the year		—	—	—	—	—	1,566,934	1,566,934	35,817	1,602,751
Other comprehensive income		—	—	—	—	(59,849)	—	(59,849)	—	(59,849)
Total comprehensive income		—	—	—	—	(59,849)	1,566,934	1,507,085	35,817	1,542,902
Appropriation of profit										
— Appropriation to surplus reserve	*34 (b)*	—	—	150,042	—	—	(150,042)	—	—	—
— Appropriation to general reserve	*34 (c)*	—	—	—	265,142	—	(265,142)	—	—	—
— Appropriation to shareholders	*35*	—	—	—	—	—	(625,680)	(625,680)	—	(625,680)
Balance at December 31, 2017		4,171,197	1,679,964	867,004	1,573,622	(54,329)	2,446,058	10,683,516	387,591	11,071,107

	Notes	Attributable to equity shareholders of the Bank								Non-controlling interests	Total
		Share capital	Capital reserve	Surplus reserve	General reserve	Impairment reserve	Fair value reserve	Retained earnings	Subtotal		
Balance at December 31, 2017		4,171,197	1,679,964	867,004	1,573,622	—	(54,329)	2,446,058	10,683,516	387,591	11,071,107
Changes in accounting policies	2 (1)(a)	—	—	—	—	3,717	(124,814)	(113,270)	(234,367)	—	(234,367)
Balance at January 1, 2018		4,171,197	1,679,964	867,004	1,573,622	3,717	(179,143)	2,332,788	10,449,149	387,591	10,836,740
Changes in equity for the year:											
Net profit for the year		—	—	—	—	—	—	964,398	964,398	52,888	1,017,286
Other comprehensive income		—	—	—	—	4,516	126,035	—	130,551	—	130,551
Total comprehensive income		—	—	—	—	4,516	126,035	964,398	1,094,949	52,888	1,147,837
Capital contribution by equity shareholders		800,000	1,440,000	—	—	—	—	—	2,240,000	—	2,240,000
Appropriation of profit											
— Appropriation to surplus reserve	*34 (b)*	—	—	85,742	—	—	—	(85,742)	—	—	—
— Appropriation to general reserve	*34(c)*	—	—	—	153,236	—	—	(153,236)	—	—	—
— Appropriation to shareholders	*35*	—	—	—	—	—	—	(417,120)	(417,120)	—	(417,120)
Balance at December 31, 2018		4,971,197	3,119,964	952,746	1,726,858	8,233	(53,108)	2,641,088	13,366,978	440,479	13,807,457

	Notes	Attributable to equity shareholders of the Bank								Perpetual bonds	Non-controlling interests	Total
		Share capital	Capital reserve	Surplus reserve	General reserve	Impairment reserve	Fair value reserve	Retained earnings	Subtotal			
Balance at January 1, 2019		4,971,197	3,119,964	952,746	1,726,858	8,233	(53,108)	2,641,088	13,366,978	—	440,479	13,807,457
Changes in equity for the year:												
Net profit for the year		—	—	—	—	—	—	1,439,696	1,439,696	—	83,965	1,523,661
Other comprehensive income		—	—	—	—	922	23,277	—	24,199	—	—	24,199
Total comprehensive income		—	—	—	—	922	23,277	1,439,696	1,463,895	—	83,965	1,547,860
Issue of perpetual bonds	*34 (f)*	—	—	—	—	—	—	—	—	2,999,675	—	2,999,675
Appropriation of profit												
— Appropriation to surplus reserve	*34 (b)*	—	—	136,334	—	—	—	(136,334)	—	—	—	—
— Appropriation to general reserve	*34 (c)*	—	—	—	352,374	—	—	(352,374)	—	—	—	—
— Appropriation to shareholders and bondholders	*35*	—	—	—	—	—	—	(431,494)	(431,494)	—	—	(431,494)
Balance at December 31, 2019		4,971,197	3,119,964	1,089,080	2,079,232	9,155	(29,831)	3,160,582	14,399,379	2,999,675	524,444	17,923,498

	Notes	Attributable to equity shareholders of the Bank									
		Share capital	**Capital reserve**	**Surplus reserve**	**General reserve**	**Impairment reserve**	**Fair value reserve**	**Retained earnings**	**Subtotal**	**Non-controlling interests**	**Total**
Balance at January 1, 2019		4,971,197	3,119,964	952,746	1,726,858	8,233	(53,108)	2,641,088	13,366,978	440,479	13,807,457
Changes in equity for the period:											
Net profit for the period.		—	—	—	—	—	—	355,938	355,938	20,175	376,113
Other comprehensive income		—	—	—	—	1,505	(31,432)	—	(29,927)	—	(29,927)
Total comprehensive income		—	—	—	—	1,505	(31,432)	355,938	326,011	20,175	346,186
Balance at March 31, 2019 (unaudited) .		4,971,197	3,119,964	952,746	1,726,858	9,738	(84,540)	2,997,026	13,692,989	460,654	14,153,643

	Notes	Attributable to equity shareholders of the Bank										
		Share capital	**Capital reserve**	**Surplus reserve**	**General reserve**	**Impairment reserve**	**Fair value reserve**	**Retained earnings**	**Subtotal**	**Perpetual bonds**	**Non-controlling interests**	**Total**
Balance at January 1, 2020		4,971,197	3,119,964	1,089,080	2,079,232	9,155	(29,831)	3,160,582	14,399,379	2,999,675	524,444	17,923,498
Changes in equity for the period:												
Net profit for the period		—	—	—	—	—	—	359,401	359,401	—	32,418	391,819
Other comprehensive income		—	—	—	—	3,605	235,378	—	238,983	—	—	238,983
Total comprehensive income		—	—	—	—	3,605	235,378	359,401	598,384	—	32,418	630,802
Capital contribution by non-controlling interests.	*20*	—	(7,642)	—	—	—	—	—	(7,642)	—	139,942	132,300
Appropriation of profit												
— Appropriation to general reserve . .	*34 (c)*	—	—	—	213,803	—	—	(213,803)	—	—	—	—
— Appropriation to non-controlling interests.		—	—	—	—	—	—	—	—	—	(35,000)	(35,000)
— Appropriation to shareholders . . .	*35*	—	—	—	—	—	—	(497,120)	(497,120)	—	—	(497,120)
Balance at March 31, 2020		4,971,197	3,112,322	1,089,080	2,293,035	12,760	205,547	2,809,060	14,493,001	2,999,675	661,804	18,154,480

Consolidated Statements of Cash Flows
(Expressed in thousands of Renminbi, unless otherwise stated)

		Year ended December 31,			Three months ended March 31,	
	Note	2017	2018	2019	2019	2020
					(unaudited)	
Cash flows from operating activities						
Profit before income tax		1,957,598	1,149,474	1,813,673	446,558	472,502
Adjustments for:						
Impairment losses on assets	*11*	511,177	1,335,286	1,671,168	346,292	634,349
Depreciation and amortisation	*8*	107,127	105,318	217,743	55,575	51,426
Unrealised foreign exchange losses/(gains)	*5*	524	(17,276)	(19,238)	1,659	(8,581)
Net (gains)/losses on disposal of property and equipment	*7*	(1,019)	776	14,257	—	111
Net trading losses/(gains)	*5*	38,513	(48,064)	(55,193)	(61,308)	21,309
Net gains on disposal of investment securities	*6*	(44,202)	(1,773,346)	(1,294,442)	(353,072)	(417,358)
Interest expenses on debt securities issued	*3*	1,201,534	2,058,977	1,411,197	444,817	275,553
Interest expenses on lease liabilities	*8*	—	—	22,907	5,902	5,524
		3,771,252	2,811,145	3,782,072	886,423	1,034,835
Changes in operating assets						
Net decrease/(increase) in deposits with the central bank		40,336	684,722	(2,739,036)	2,782,374	2,036,892
Net decrease/(increase) in deposits with banks and other financial institutions		1,275,670	93,266	(990,616)	(18,508)	961,993
Net increase in loans and advances to customers		(12,639,502)	(9,522,505)	(17,344,519)	(10,419,837)	(11,201,872)
Net decrease/(increase) in financial assets held under resale agreements		4,993,798	13,666,130	(3,997,300)	(2,766,104)	5,389,300
Net (increase)/decrease in other operating assets		(6,956,739)	(5,949,160)	1,615,923	(1,387,491)	(3,925,724)
		(13,286,437)	(1,027,547)	(23,455,548)	(11,809,566)	(6,739,411)
Changes in operating liabilities						
Net increase/(decrease) in borrowing from the central bank		1,025,952	480,499	1,080,312	(141,567)	577,700
Net (decrease)/increase in deposits from banks and other financial institutions		(8,835,217)	4,740,242	(2,388,460)	(2,026,461)	(165,173)
Net increase/(decrease) in placements from banks and other financial institutions		3,606,000	3,665,070	(62,260)	218,430	1,508,083
Net increase/(decrease) in financial assets sold under repurchase agreements		1,975,551	(16,262,496)	4,186,445	3,713,203	(4,149,452)
Net increase/(decrease) in deposits from customers		9,580,960	(4,311,512)	26,416,906	10,987,991	12,673,005
Income tax paid		(436,055)	(344,025)	(443,691)	(140,035)	(133,988)
Net increase/(decrease) in other operating liabilities		2,472,600	(1,674,676)	1,600,721	136,972	(1,135,740)
		9,389,791	(13,706,898)	30,389,973	12,748,533	9,174,435
Net cash flows (used in)/generated from operating activities		(125,394)	(11,923,300)	10,716,497	1,825,390	3,469,859

	Note	Year ended December 31, 2017	2018	2019	Three months ended March 31, 2019 (unaudited)	2020
Cash flows from investing activities						
Proceeds from disposal and redemption of investments		103,815,362	139,525,288	289,550,218	106,863,990	152,267,864
Gains received from investment activities		3,514,835	4,123,479	4,669,159	1,100,103	1,245,859
Payments on acquisition of investments		(122,152,708)	(142,200,460)	(278,245,668)	(112,993,208)	(157,659,276)
Payments on acquisition of property and equipment, intangible assets and other assets		(83,269)	(61,922)	(63,127)	(9,452)	(11,024)
Proceeds from disposal of property and equipment and other assets		2,755	105	28,200	—	41
Net cash flows (used in)/generated from investing activities		(14,903,025)	1,386,490	15,938,782	(5,038,567)	(4,156,536)
Cash flows from financing activities						
Proceeds from capital contribution by non-controlling interests		—	2,240,000	—	—	132,300
Proceeds from debt securities issued	*38(c)*	74,957,771	61,994,103	65,574,592	26,238,458	5,661,410
Repayment of debt securities issued	*38(c)*	(67,040,000)	(52,740,000)	(78,790,000)	(21,190,000)	(6,450,000)
Interest paid on debt securities issued	*38(c)*	(1,154,388)	(1,973,906)	(1,513,521)	(453,743)	(293,493)
Capital element of lease liabilities paid	*38(c)*	—	—	(105,591)	(30,688)	(33,659)
Interest element of lease liabilities paid	*38(c)*	—	—	(22,907)	(5,902)	(5,524)
Dividends paid		(622,924)	(424,193)	(417,952)	—	(87,193)
Proceeds from issuance of perpetual bonds		—	—	2,999,675	—	—
Net cash flows generated from/(used in) financing activities		6,140,459	9,096,004	(12,275,704)	4,558,125	(1,076,159)
Effect of foreign exchange rate changes on cash and cash equivalents		663	1,329	(1,419)	30	38
Net (decrease)/increase in cash and cash equivalents		(8,887,297)	(1,439,477)	14,378,156	1,344,978	(1,762,798)
Cash and cash equivalents as at January 1		31,190,226	22,302,929	20,863,452	20,863,452	35,241,608
Cash and cash equivalents as at December 31/March 31		22,302,929	20,863,452	35,241,608	22,208,430	33,478,810
Interest received		7,969,123	8,491,969	9,797,448	2,160,798	3,344,856
Interest paid (excluding interest expense on debt securities issued)		(3,380,941)	(3,392,045)	(3,457,301)	(961,094)	(1,468,978)

B STATEMENTS OF FINANCIAL POSITION OF THE BANK

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	At December 31, 2017	At December 31, 2018	At December 31, 2019	At March 31, 2020
Assets					
Cash and deposits with the central bank	14	19,149,521	18,464,800	21,203,836	19,256,136
Deposits with banks and other financial institutions	15	2,529,429	1,058,990	2,026,905	1,044,882
Placements with banks and other financial institutions	16	1,202,293	1,271,929	507,205	567,954
Financial assets held under resale agreements	17	15,058,130	1,392,275	5,386,562	—
Loans and advances to customers	18	64,797,414	74,416,937	91,335,876	102,563,036
Financial investments:	19				
Financial investments at fair value through profit or loss		5,362,537	23,008,735	18,507,144	17,747,069
Financial investments at fair value through other comprehensive income		—	18,520,862	13,899,189	24,395,657
Financial investments at amortised cost		—	52,081,895	56,722,112	52,761,894
Available-for-sale financial assets		6,777,151	—	—	—
Held-to-maturity investments		41,167,293	—	—	—
Investments classified as receivable		38,007,908	—	—	—
Investment in a subsidiary	20	650,000	650,000	650,000	650,000
Property and equipment	21	712,581	687,409	670,964	659,366
Right-of-use assets	22	—	—	446,963	469,617
Deferred tax assets	23	259,943	561,943	895,891	1,005,632
Other assets	24	2,001,784	593,595	798,084	935,702
Total assets		197,675,984	192,709,370	213,050,731	222,056,945
Liabilities and equity					
Liabilities					
Borrowing from the central bank		3,166,428	3,648,371	4,730,937	5,308,289
Deposits from banks and other financial institutions	26	2,632,978	7,832,059	5,002,125	4,864,262
Placement from banks and other financial institutions	27	—	972,108	351,500	359,525
Financial assets sold under repurchase agreements	28	22,020,150	5,762,553	9,945,309	5,794,846
Deposits from customers	29	121,125,358	117,470,165	144,527,462	156,984,803
Income tax payable		71,632	126,061	334,041	405,454
Debt securities issued	31	33,412,780	42,942,514	29,624,782	28,818,252
Lease liabilities	30	—	—	418,671	424,720
Deferred tax liabilities	23	—	—	5,168	70,490
Other liabilities	32	4,632,959	756,602	1,035,537	1,839,531
Total liabilities		187,062,285	179,510,433	195,975,532	204,870,172
Equity					
Share capital	33	4,171,197	4,971,197	4,971,197	4,971,197
Capital reserve	34(a)	1,679,964	3,119,964	3,119,964	3,119,964
Surplus reserve	34(b)	867,004	952,746	1,089,080	1,089,080
General reserve	34(c)	1,567,063	1,668,102	1,954,904	2,156,539
Fair value reserve	34(d)	(54,329)	(53,108)	(29,831)	205,547
Impairment reserve	34(e)	—	8,233	9,155	12,760
Perpetual bonds	34(f)	—	—	2,999,675	2,999,675
Retained earnings	35	2,382,800	2,531,803	2,961,055	2,632,011
Total equity		10,613,699	13,198,937	17,075,199	17,186,773
Total liabilities and equity		197,675,984	192,709,370	213,050,731	222,056,945

C. NOTES TO HISTORICAL FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

1. BACKGROUND INFORMATION

Weihai City Commercial Bank Co., Ltd. (formerly Weihai City Cooperation Bank Co., Ltd.) commenced business as a city commercial bank on July 21, 1997, according to the approval by the People's Bank of China "PBoC". According to the approval by the PBoC Shandong Branch, Weihai City Cooperation Bank Co., Ltd. was renamed as Weihai City Commercial Bank Co., Ltd. on April 17, 1998.

The Bank has been approved by the former China Banking Regulatory Commission (the former "CBRC") (Shandong Branch) to hold financial business permit (No. D10014650043). By March 31, 2020, the registered capital of the Bank was RMB4,971,197,344, with its registered office located at No. 9 Baoquan Road Weihai, Shandong Province.

The Group's principal businesses include corporate banking, retail banking, financial market business and finance lease services.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of preparation and presentation — Statement of compliance

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards (the "IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the "IASB"). The Historical Financial Information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Stub Period Comparative Historical Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

(a) Changes in accounting policies

(i) IFRS 15 "Revenue from contracts with customers"

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial information to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity may adopt IFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Transitional disclosures are different depending on the approach adopted by the entity.

The Group has adopted IFRS 15 since January 1, 2018. The Group has elected to adopt IFRS 15 by using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application on January 1, 2018. The adoption have no material impact on the financial position and the financial result of the Group.

(ii) IFRS 9 "Financial instruments"

IFRS 9 Financial Instruments ("IFRS 9") introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets, hedge accounting and disclosure. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 on a retrospective basis and includes an exception from the requirement to restate comparative information. The Group has applied the exemption from restating comparative information and recognised the transition adjustments against the opening balance of equity at January 1, 2018.

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through other comprehensive income ("FVOCI") and (3) fair value through profit or loss ("FVTPL"):

- A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL includes : (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (ii) The contractual terms of the financial asset give rise on specified dates to cash flows that meet the solely payments of principal and interest criterion.

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. On initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL. If a debt instrument is classified as FVOCI, then interest revenue, impairment, foreign exchange gains/losses and gains/losses on disposal will be recognised in profit or loss.

- For equity investments, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity investment is not held-for-trading and the entity irrevocably elects to designate that investment as FVOCI. If an equity investment is designated as FVOCI, then only dividend income on that investment will be recognised in profit or loss. Gains and losses on that investment will be recognised in other comprehensive income without recycling.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from International Accounting Standard ("IAS") 39, Financial Instruments: Recognition and Measurement, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss).

Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances, which will result in an early recognition of credit losses.

Disclosure

IFRS 9 requires extensive new disclosures, in particular about credit risk and expected credit loss.

Transition

The Group is required to adopt IFRS 9 from January 1, 2018. The Group has applied the exemption from restating comparative information and recognised the transition adjustments against the opening balance of net assets at January 1, 2018. The Bank did not adopt IFRS 9 for the year ended December 31, 2017.

The following table summarises the impact of transition to IFRS 9 on fair value reserve, impairment reserve, retained earnings and non-controlling interests at January 1, 2018.

Fair value reserve	
Transferred to retained earnings	(129,725)
Transferred to fair value reserve	6,548
Related tax effect	(1,637)
Impact as at January 1, 2018	(124,814)
Impairment reserve	
Recognition of ECL on financial assets	4,956
Related tax effect	(1,239)
Impact as at January 1, 2018	3,717

Retained earnings	
Transferred from fair value reserve	129,725
Fair value movement	11,212
Recognition of additional ECL on:	
— financial assets	(267,550)
— credit commitments.	(64,778)
Related tax effect	78,121
Impact as at January 1, 2018	(113,270)

The following table provides the amount of Group's financial instruments listed at January 1, 2018, according to the original classification and measurement categories of IAS 39 and the new classification and measurement categories of IFRS 9 respectively.

	IAS 39		IFRS 9	
Financial instruments category	**Classification under IAS 39**	**Carrying amount at December 31, 2017**	**Classification under IFRS 9**	**Carrying amount at January 1, 2018**
Cash and deposits with the central bank	Financial assets measured at amortised cost (Loans and receivables)	19,149,521	Financial assets measured at amortised cost	19,149,521
Deposits with banks and other financial institutions	Financial assets measured at amortised cost (Loans and receivables)	1,129,495	Financial assets measured at amortised cost	1,129,420
Placements with banks and other financial institutions	Financial assets measured at amortised cost (Loans and receivables)	1,202,293	Financial assets measured at amortised cost	1,202,280
Financial assets held under resale agreements	Financial assets measured at amortised cost (Loans and receivables)	15,058,130	Financial assets measured at amortised cost	15,044,252
Loans and advances to customers	Financial assets measured at amortised cost (Loans and receivables)	64,797,414	Financial assets measured at amortised cost	60,651,429
			Financial assets at FVOCI	3,924,345

	IAS 39		IFRS 9	
Financial instruments category	Classification under IAS 39	Carrying amount at December 31, 2017	Classification under IFRS 9	Carrying amount at January 1, 2018
Financial investments at FVTPL	Financial investments measured at FVTPL	5,362,537	Financial investments at FVTPL	5,362,537
Available-for-sale financial assets	Financial assets at FVOCI (Available-for-sale financial assets)	3,487,584	Financial assets at FVOCI	3,487,584
Available-for-sale financial assets	Financial assets measured at amortised cost (Available-for-sale financial assets)	3,289,567	Financial assets at FVOCI	91,092
			Financial assets at FVTPL	3,197,254
Held-to-maturity investments	Financial assets measured at amortised cost (Held-to-maturity investments)	41,167,293	Financial investments at amortised cost	41,159,493
Investments classified as receivables	Financial assets measured at amortised cost (Loans and receivables)	38,007,908	Financial investments at amortised cost	14,414,426
			Financial assets at FVTPL	23,601,096
Other assets	Financial assets measured at amortised cost (Loans and receivables)	10,426,873	Financial investments at amortised cost	10,416,176

The following financial assets has been reclassified and remeasured on transition to IFRS 9 from IAS 39 at January 1, 2018.

	Carrying amount under IAS 39			Carrying amount under IFRS 9
	As at December 31, 2017	Reclassification	Remeasurement	As at January 1, 2018
Financial assets measured at amortised cost				
Cash and deposits with the central bank				
Balance presented according to IAS 39 and IFRS 9	19,149,521	—	—	19,149,521
Deposits with banks and other financial institutions				
Balance presented according to IAS 39	1,129,495	—	—	1,129,495
Remeasurement: ECL allowance	—	—	(75)	(75)
Balance presented according to IFRS 9				1,129,420

	Carrying amount under IAS 39			Carrying amount under IFRS 9
	As at December 31, 2017	Reclassification	Remeasurement	As at January 1, 2018
Placements with banks and other financial institutions				
Balance presented according to IAS 39	1,202,293	—	—	1,202,293
Remeasurement: ECL allowance	—	—	(13)	(13)
Balance presented according to IFRS 9				1,202,280
Financial assets held under resale agreements				
Balance presented according to IAS 39	15,058,130	—	—	15,058,130
Remeasurement: ECL allowance	—	—	(13,878)	(13,878)
Balance presented according to IFRS 9				15,044,252
Loans and advances to customers				
Balance presented according to IAS 39	64,797,414	—	—	64,797,414
Less: transferred to financial assets at FVOCI (IFRS 9) *(Note A)*	—	(3,917,797)	—	(3,917,797)
Remeasurement: ECL allowance	—	—	(228,188)	(228,188)
Balance presented according to IFRS 9				60,651,429
Financial investments at amortised cost				
Balance presented according to IAS 39	—	—	—	—
Add: transferred from held-to-maturity investments (IAS 39) *(Note B)*	—	41,167,293	—	41,167,293
Remeasurement: ECL allowance	—	—	(7,800)	(7,800)
Add: transferred from investments classified as receivables (IAS 39) *(Note B)*	—	14,419,245	—	14,419,245
Remeasurement: ECL allowance	—	—	(4,819)	(4,819)
Balance presented according to IFRS 9				55,573,919

	Carrying amount under IAS 39			Carrying amount under IFRS 9
	As at December 31, 2017	Reclassification	Remeasurement	As at January 1, 2018
Available-for-sale financial assets				
Balance presented according to IAS 39	3,289,567	—	—	3,289,567
Less: transferred to financial assets at FVOCI (IFRS 9) *(Note E)*	—	(91,092)	—	(91,092)
Less: transferred to financial assets at FVTPL (IFRS 9) *(Note D)*	—	(3,198,475)	—	(3,198,475)
Balance presented according to IFRS 9				—
Held-to-maturity investments				
Balance presented according to IAS 39	41,167,293	—	—	41,167,293
Less: transferred to amortised cost (IFRS 9) *(Note B)*	—	(41,167,293)	—	(41,167,293)
Balance presented according to IFRS 9				—
Investments classified as receivables				
Balance presented according to IAS 39	38,007,908	—	—	38,007,908
Less: transferred to amortised cost (IFRS 9) *(Note B)*	—	(14,419,245)	—	(14,419,245)
Less: transferred to financial assets at FVTPL (IFRS 9) *(Note C)*	—	(23,588,663)	—	(23,588,663)
Balance presented according to IFRS 9				—
Other assets				
Balance presented according to IAS 39	10,426,873	—	—	10,426,873
Remeasurement: ECL allowance	—	—	(10,697)	(10,697)
Balance presented according to IFRS 9				10,416,176
Sub-total	194,228,494	(30,796,027)	(265,470)	163,166,997

	Carrying amount under IAS 39			Carrying amount under IFRS 9
	As at December 31, 2017	Reclassification	Remeasurement	As at January 1, 2018
Financial assets at FVTPL				
Financial assets at FVTPL				
Balance presented according to IAS 39	5,362,537	—	—	5,362,537
Add: transferred from available-for-sale financial assets (IAS 39) *(Note D)*	—	3,198,475	—	3,198,475
Remeasurement: from cost to fair value	—	—	(1,221)	(1,221)
Add: transferred from investments classified as receivables (IAS 39) *(Note C)*	—	23,588,663	—	23,588,663
Remeasurement: from amortised cost to fair value	—	—	12,433	12,433
Balance presented according to IFRS 9				32,160,887
Sub-total	5,362,537	26,787,138	11,212	32,160,887
Financial assets at FVOCI				
Loans and advances to customers				
Balance presented according to IAS 39	—	—	—	—
Add: transferred from loans and advances to customers (IAS 39) *(Note A)*	—	3,917,797	—	3,917,797
Remeasurement: reversal the allowance for impairment losses under IAS 39	—	—	4,581	4,581
Remeasurement: from amortised cost to fair value	—	—	1,967	1,967
Balance presented according to IFRS 9				3,924,345
Financial assets at FVOCI				
Balance presented according to IAS 39	—	—	—	—
Add: transferred from available-for-sale financial assets (IAS 39) *(Note E)*	—	3,578,676	—	3,578,676
Balance presented according to IFRS 9				3,578,676

	Carrying amount under IAS 39 As at December 31, 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 As at January 1, 2018
Available-for-sale financial assets (IAS 39)				
Balance presented according to IAS 39	3,487,584	—	—	3,487,584
Less: transferred to financial assets at FVOCI *(Note B)*	—	(3,487,584)	—	(3,487,584)
Balance presented according to IFRS 9				—
Sub-total	3,487,584	4,008,889	6,548	7,503,021

The Group has adopted IFRS 9 from January 1, 2018. There were a net decrease of RMB121.1 million in reserve, a net decrease of RMB113.3 million in retained earnings (after tax) arising from the new requirements on classification and measurement of financial assets listed above as compared with that recognised under IAS 39.

A. Certain loans and advances to customers held by the Group were held within a business model whose objective on the transition date was to collect contractual cash flows and sell financial assets. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at FVOCI under IFRS 9.

B. Certain debt instruments' classification under IAS 39 is replaced by the classification under IFRS 9 at the same measurement methods.

   (i) Certain debt instruments originally classified as receivables were classified as financial assets at amortised cost under IFRS 9.

   (ii) Certain debt instruments originally classified as held-to-maturity investments were classified as financial assets at amortised cost under IFRS 9.

   (iii) Certain debt instruments originally classified as available-for-sale financial assets were classified as financial assets at FVOCI under IFRS 9.

C. Certain debt instruments originally classified as receivables, their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at FVTPL under IFRS 9.

D. Certain available-for-sale financial assets, their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at FVTPL under IFRS 9.

E. Certain equity investments were reclassified from available-for-sale financial assets to financial assets at FVOCI. These equity investments were previously stated at cost as they do not have quoted price in an active market. The Group intends to hold these equity investments for long term strategic purposes. Therefore, the Group has now designated these equity investments at the date of initial application as financial assets at FVOCI.

At initial application date, the ending balance of the allowance of financial assets impairment losses from IAS 39 to IFRS 9 is reconciliated as follows:

	Provision for impairment loss according to IAS 39/Provisions recognised under IAS 37			Provision for impairment loss IFRS 9
	As at December 31, 2017	**Reclassification**	**Remeasurement**	**As at January 1, 2018**
Loans and receivables (IAS 39)/Financial assets measured at amortised cost (IFRS 9)				
Cash and deposits with central Bank	—	—	—	—
Deposits with banks and other financial institutions	—	—	75	75
Placements with banks and other financial institutions	—	—	13	13
Financial assets held under resale agreements	—	—	13,878	13,878
Loans and advances to customers	1,721,205	—	228,188	1,949,393
Financial investments . .	194,506	—	(32,087)	162,419
Other assets	11,530	—	10,697	22,227
Loans and receivables (IAS 39)/Financial assets measured at FVOCI (IFRS 9)				
Loans and advances to customers at FVOCI. .	—	—	4,581	4,581
Financial investments . .	—	—	—	—
Held-to-maturity investments (IAS 39)/Financial assets measured at amortised cost (IFRS 9)				
Financial investments . .	—	—	7,800	7,800
Credit commitments . . .	—	—	64,778	64,778

(iii) IFRS 16 "Leases"

The Group applied IFRS 16 with a date of initial application of January 1, 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application was recognised in retained earnings at January 1, 2019. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC-Int 4.

As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases — i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to leases with less than 12 months of lease term (the "short-term leases") and leases of low-value assets. For leases of other assets, which were classified as operating under IAS 17, the Group recognised right-of-use assets and lease liabilities.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

— Applied a single discount rate to a portfolio of leases with similar characteristics.

— Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.

— Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

— Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

— Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

Under IFRS 16, the Group is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Group reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17.

The adoption of IFRS 16 does not have significant impact on the consolidated financial statement of the Group.

Impacts on financial statements

The Group elected to use the modified retrospective approach for the adoption of IFRS 16 and recognised right-of-use assets based on lease liabilities. Therefore, there was no adjustment to the opening balance of equity at January 1, 2019 and did not restate the comparative information. On January 1, 2019, the Group recognised approximately RMB462.6 million of right-of-use assets (including prepaid or accrued lease payments approximately RMB34.8 million which had already been recognised in the consolidated statement of financial position) and approximately RMB427.8 million of lease liabilities.

	Impacts on financial statements
Operating lease commitments at December 31, 2018	514,539
Discounted using the incremental borrowing rate at January 1, 2019	448,618
Recognition exemption for short-term leases	(20,864)
Lease liabilities recognised at January 1, 2019	427,754
Right-of-use assets recognised at January 1, 2019	462,637

(b) Possible impact of amendments, new standards and interpretations issued but not yet effective

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the Historical Financial Information, the Group has adopted all applicable new and revised IFRSs to the Track Record Period, except for any new standards or interpretations that are not yet effective.

The revised and new accounting standards and interpretations but not yet effective for the three months ended March 31, 2020 or before, are set out below:

	Effective for accounting period beginning on or after
IFRS 17, Insurance contracts	January 1, 2023
Amendments to IFRS 16, COVID-19 Related Rent Concessions	June 1, 2020
Amendments to IAS 1, Classification of Liabilities as Current or Non-current	January 1, 2022
Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an Investor and its associate or joint venture	To be determined

The Group has assessed the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's result of operations and financial position.

(2) Basis of preparation and presentation — Functional and presentation currency

The Historical Financial Information is presented in Renminbi ("RMB"), which is the functional currency of the Group. All financial information presented in RMB has been rounded to the nearest thousand, except when otherwise indicated.

(3) Basis of preparation and presentation — Basis of measurement

The financial information has been prepared on the historical cost basis except of certain financial assets, which are measured at fair value, as stated in Note 42.

(4) Basis of preparation and presentation — Use of estimates and judgments

The preparation of financial information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future years if the revision affects both current and future years.

Judgments made by management in the application of IFRSs that have a significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 2(27).

(5) Subsidiary and non-controlling interests

Subsidiary are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(17)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(6) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

A spot exchange rate is quoted by The People's Bank of China ("PBoC"), the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of each of the Track Record Period. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in profit or loss, except for the exchange differences arising from the translation of non-monetary financial investments which are recognised in fair value reserve.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(8) Financial instruments

(a) The following accounting policies related to financial instruments apply to the period before January 1, 2018

(i) Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognised in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorised as follows:

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

— the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;

— the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;

— the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

— the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein are recognised in profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than:

(a) those that the Group, upon initial recognition, designates at fair value through profit or loss or as available-for-sale; or

(b) those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are stated at amortised cost using the effective interest method.

Loans and receivables

Loans and receivables are non-derivative financial assets held by the Group with fixed or determinable recoverable amounts that are not quoted in an active market, other than:

(a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;

(b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

(c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise loans and advances to customers, financial assets classified as receivables, deposits and placements with banks and other financial institutions and financial assets held under resale agreements. Subsequent to initial recognition, loans and receivables are stated at amortised cost using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any of the above categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, without any deduction for transaction costs that may occur on sale and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, are recognised directly in other comprehensive income. Investments in available-for-sale equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment losses, if any. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is reclassified to the profit or loss.

Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(ii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of each of the Track Record Period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence includes the following loss event:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- disappearance of an active market for financial assets because of financial difficulties;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loans and receivables

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognised in profit or loss.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous banks of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are banked for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a bank of financial assets since the initial recognition of those assets.

Homogeneous groups of loans not considered individually significant

For homogeneous groups of loans that are not considered individually significant, the Group adopts a flow rate methodology to collectively assess impairment losses. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgment based on management's historical experience.

Individually assessed loans with no objective evidence of impairment on an individual basis.

Loans which are individually significant and therefore have been individually assessed but for which no objective evidence of impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are banked together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and advances that were impaired at the end of each of the Track Record Period but which will not be individually identified as such until sometime in the future.

The collective impairment loss is assessed after taking into account:

— historical loss experience in portfolios of similar credit risk characteristics;

— the emergence period between a loss occurring and that loss being identified; and

— the current economic and credit environments and the judgment on inherent loss based on management's historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that loans and receivables have no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loans and receivables are written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loans and receivables written off are recovered, the amount recovered is recognised in profit or loss through impairment losses.

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan meets specific conditions, it is no longer considered as impaired.

Held-to-maturity investments

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost net of any principal repayment and amortisation and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, after an impairment loss has been recognised on available-for-sale debt securities, the fair value of the assets increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an equity instrument classified as available-for-sale is not reversed through profit or loss but recognised directly in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset, and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Impairment losses for equity instruments carried at cost are not reversed.

(iii) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry bank or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each of the Track Record Period. Where other pricing models are used, inputs are based on market data at the end of each of the Track Record Period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

(iv) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or bank of financial assets) are derecognised when the financial assets meet one of the following conditions:

— the contractual rights to the cash flows from the financial asset expire; or

— the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(b) The following accounting policies related to financial instruments apply to the period after January 1, 2018

(i) Recognition and initial measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

A financial assets and financial liabilities is measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs.

(ii) Classification and subsequent measurement of financial assets

Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Financial assets are classified as:

— Financial assets measured at amortised cost, including loans, advances and financial investments measured at amortised cost;

— Financial assets measured at FVOCI, including loans, advances and financial investments measured at FVOCI; and

— Financial assets measured at FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

— it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

— it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Group's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Subsequent measurement of financial assets

— Financial assets at FVTPL

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

— Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

— Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

— Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

(iii) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at FVTPL, financial guarantee liabilities or amortised cost.

— Financial liabilities at FVTPL

A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

Financial liabilities at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

— Financial guarantee liabilities

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group is recognised initially at its fair value and subsequently carried at the higher of:

The amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Note 2(8)(b)(iv)); and

The amount initially recognised less the cumulative amount of income.

— Financial liabilities at amortised cost

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(iv) Impairment

The Group recognises loss allowances for expected credit loss (ECL) on:

— financial assets measured at amortised cost;

— debt investments measured at FVOCI; and

— credit commitment.

Financial assets measured at fair value, including debt investments or equity investments at FVTPL, and equity securities designated at FVOCI, are not subject to the ECL assessment.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECL is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the balance sheet date (or a shorter period if the expected life of the instrument is less than 12 months).

ECL on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the balance sheet date.

See Note 41(a) for the measurement of expected credit loss of the Group.

Presentation of allowance for ECL

ECLs are remeasured at each balance sheet date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in compliance with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(v) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry bank or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar identical terms and conditions at the end of each of the Track Record Period. Where other pricing models are used, inputs are based on market data at the end of each of the Track Record Period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

(vi) Derecognition of financial assets and financial liabilities

Financial asset is derecognised when one of the following conditions is met:

— the Group's contractual rights to the cash flows from the financial asset expire;

— the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or

— the financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

— the carrying amount of the financial asset transferred measured at the date of derecognition;

— the sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

The Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

(vii) Offsetting

Financial assets and financial liabilities are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

— the Group currently has a legally enforceable right to set off the recognised amounts;

— the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(9) Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with the accounting policy applicable to that asset. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised respectively as interest income and interest expense over the life of each agreement using the effective interest method.

(10) Perpetual bonds

At initial recognition, the Bank classifies the perpetual bonds issued or their components as financial assets, financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial assets, financial liabilities and equity instruments.

Perpetual bonds issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

(11) Investment in a subsidiary

In the Group's consolidated financial information, investment in a subsidiary is accounted for in accordance with the principles described in Note 2(5).

In the Bank's financial information, investment in a subsidiary is accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognised at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (see Note 2(17)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid-in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

(12) Property and equipment

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (see Note 2(17)).

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

Where the individual component parts of an item of property and equipment have different useful lives or provide economic benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as a separate property and equipment.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	40	5	2.38%
Leasehold improvements	Over the lease terms		
Motor vehicles	7	5	13.57%
Office equipment	5	5	19.00%

Useful lives, residual values and depreciation methods are reviewed at least at each year-end.

(13) Investment property

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(17)). Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	40	5	2.38%
Land use rights	Over the lease terms		

(14) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 2(1)(a).

Policy applicable from January 1, 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group, as a lessor or a lessee, assesses whether:

— the contract involves the use of an identified asset — this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

— the lessee has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;

— the lessee has the right to direct the use of the asset. The lessee has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the lessee has the right to direct the use of the asset if either:

— the lessee has the right to operate the asset; or

— the lessee designed the asset in a way that predetermines how and for what purpose it will be used.

IFRS 16 is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(i) As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

— fixed payments, including in-substance fixed payments;

— variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

— amounts expected to be payable under a residual value guarantee; and

— the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in property and equipment, right-of-use assets and land use right separately and lease liabilities as separate line items in the consolidated statements of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before January 1, 2019

For contracts entered into before January 1, 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

— fulfillment of the arrangement was dependent on the use of a specific asset or assets;

— the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met;

— the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;

— the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

— facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

In the comparative period, as a lessee the Group classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the right-of-use assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statements of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

The accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16. However, when the Group was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

(15) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortisation and impairment loss (see Note 2(17)). The cost of intangible assets less residual value and impairment loss is amortised on the straight-line method over the estimated useful lives.

The respective amortisation periods for intangible assets are as follows:

Computer software and system development	5 years

(16) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(17) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of each of the Track Record Period based on the internal and external sources of information to determine whether there is any indication of impairment:

— property and equipment

— investment property measured using a cost model

— intangible assets

— investment in a subsidiary

— right-of-use assets

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset groups are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about using or disposing of the Group's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs of disposal and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

An asset's fair value less costs of disposal is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognised accordingly.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(18) Employee benefits

Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of the Group include the social pension schemes, annuity plan, housing fund and other social insurances.

Social pension schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for the employees arranged by local government labor and social security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Annuity plan

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' total salaries and bonuses, which are charged to profit or loss when the contributions are made.

Housing fund and other social insurances

In addition to the retirement benefits above, the Group has joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

(19) Income tax

Income tax for the reporting period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiary to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    — the same taxable entity; or

    — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(20) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

The following accounting policies apply to the period before January 1, 2018:

Financial guarantees are contracts that require the issuer (the "guarantor") to make specified payments to reimburse the beneficiary of the guarantee ("holder") for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in other liabilities. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statements of financial position as stated in Note 2(20)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

The following accounting policies apply to the period after January 1, 2018:

In terms of off-balance sheet credit commitment, the Group applies expected credit loss model to measure the loss caused by particular debtors incapable of paying due debts, which is present in provisions. See Note 2(8)(b)(iv) for the description of expected credit loss model.

(ii) Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(21) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(22) Income recognition

Income is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders.

(a) The following accounting policies apply to the period before January 1, 2018

Income is recognised when it is probable that the economic benefits will flow to the Group, the income and costs can be measured reliably.

(b) The following accounting policies apply to the period after January 1, 2018

Income is recognised when the Group satisfies the performance obligation in the contract which by transferring the control over relevant goods or services to the customers.

The following is the description of accounting policies regarding income from the Group's principal activities.

(i) Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by the Group reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

The Group recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:

— The customer simultaneously receives and consumes the economic benefits provided by the Group's performance as the Group performs;

— The customer controls the service provided by the Group in the course of performance;

— The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date; or

— In other cases, the Group recognises revenue at a point in time at which a customer obtains control of the promised services.

(iii) Government grants

Government grants are recognised in the statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and consequently are effectively recognised in profit or loss over the useful life of the asset by way of other income.

(iv) Other income

Other income is recognised on an accrual basis.

(23) Expenses recognition

(i) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(24) Dividends

Dividends or distribution of profits proposed in the profit appropriation plan which will be authorised and declared after the end of each of the Track Record Period are not recognised as a liability at the end of each of the Track Record Period but disclosed separately in the notes to the Historical Financial Information.

(25) Related parties

a. A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

b. An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(26) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(27) Significant accounting estimates and judgments

The preparation of Historical Financial Information requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Key underlying assumptions and uncertainties concerning the estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(a) Provision for impairment losses on loans and advances to customers, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables

The following accounting estimates and judgments apply to the period before January 1, 2018:

The Group reviews portfolios of loans and advances to customers and investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for loans and advances to customers and investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans and advances to customers, and debt investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgment based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for an available-for-sale equity investment includes significant or prolonged decline in its fair value below its cost. When deciding whether there is significant or prolonged decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

(b) Measurement of expected credit loss

The following accounting estimates and judgments apply to the period after January 1, 2018:

The measurement of the expected credit loss allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 41(a).

A number of significant judgments are required in applying the accounting requirements for measuring expected credit losses, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses.

Detailed information about the judgments and estimates made by the Group in the above areas is set out in Note 41(a) credit risk.

(c) Fair value of financial instruments

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

(d) The classification of the held-to-maturity investments

The following accounting estimates and judgments apply to the period before January 1, 2018:

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

(e) Income taxes

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

(f) Impairment of non-financial assets

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

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

(g) Depreciation and amortisation

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

(h) Determination of control over investees

Management applies its judgment to determine whether the control indicators indicate that the Group controls a non-principal guaranteed wealth management product and an asset management plan.

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

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Group has an interest or for which it is a sponsor, see Note 36.

(i) Determination of the incremental borrowing rate used to measure lease liabilities

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

3. NET INTEREST INCOME

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Interest income arising from					
Deposits with the central bank	267,079	250,571	224,428	52,506	58,289
Deposits with banks and other financial institutions	30,342	29,124	12,546	7,619	636
Placements with banks and other financial institutions	17,193	34,029	27,208	7,466	15,004
Loans and advances to customers					
— Corporate loans and advances	2,749,317	2,681,733	3,232,235	740,676	911,774
— Personal loans and advances	491,226	715,388	1,022,494	220,424	342,202
— Discounted bills	204,154	266,713	410,302	77,483	77,932
Financial assets held under resale agreements	257,645	104,118	43,978	13,277	16,792
Debt and other investments	3,998,291	2,583,602	3,114,818	747,030	828,186
Finance leases	370,623	594,507	869,596	185,951	240,541
Sub-total	8,385,870	7,259,785	8,957,605	2,052,432	2,491,356
Interest expenses arising from					
Borrowing from the central bank	(70,645)	(77,230)	(101,958)	(19,768)	(33,700)
Deposits from banks and other financial institutions	(163,015)	(243,473)	(208,467)	(73,347)	(41,193)
Placements from banks and other financial institutions	(232,047)	(363,529)	(462,419)	(111,838)	(123,096)
Deposits from customers	(2,290,947)	(2,232,218)	(3,202,917)	(660,879)	(1,058,014)
Financial assets sold under repurchase agreements	(741,529)	(352,001)	(113,687)	(35,026)	(21,297)
Debt securities issued	(1,201,534)	(2,058,977)	(1,411,197)	(444,817)	(275,553)
Discounted bills	(41,850)	(29,910)	(150,724)	(9,845)	(6,877)
Sub-total	(4,741,567)	(5,357,338)	(5,651,369)	(1,355,520)	(1,559,730)
Net interest income	3,644,303	1,902,447	3,306,236	696,912	931,626

Total interest income arising from financial assets that are not at fair value through profit or loss for the years ended December 31, 2017, 2018 and 2019 and three months ended March 31, 2019 and 2020 amounted to RMB7,910 million, RMB7,260 million, RMB8,958 million, RMB2,052 million (unaudited) and RMB2,491 million, respectively.

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the years ended December 31, 2017, 2018 and 2019 and three months ended March 31, 2019 and 2020 amounted to RMB4,742 million, RMB5,357 million, RMB5,651 million, RMB1,355 million (unaudited) and RMB1,559 million, respectively.

Interest income arising from impaired loan for the years ended December 31, 2017, 2018 and 2019 and three months ended March 31, 2019 and 2020 amounted to RMB2 million, RMB4 million, RMB9 million, RMB200,000 (unaudited) and RMB1 million, respectively.

4. NET FEE AND COMMISSION INCOME

(a) Income and expense streams:

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Fee and commission income					
Agency services fees	73,627	59,344	129,071	43,157	42,695
Settlement and clearing fees	35,627	35,394	58,054	19,706	20,412
Consultancy services fees	107,826	111,050	61,210	15,956	22,798
Bank card services fees	10,463	19,725	17,388	6,962	9,221
Acceptance and guarantee services fees	44,759	41,672	46,236	11,135	10,532
Finance leases services fees	49,236	89,323	87,119	16,193	25,502
Others	14,703	13,756	17,306	3,985	5,623
Sub-total	336,241	370,264	416,384	117,094	136,783
Fee and commission expense					
Settlement and clearing fees	(10,424)	(12,907)	(16,829)	(3,360)	(2,807)
Bank card services fees	(20,927)	(25,403)	(36,038)	(7,443)	(5,522)
Structured deposits service fees	(53,782)	(246,472)	(75,746)	(57,333)	—
Others	(14,389)	(12,284)	(16,062)	(2,798)	(4,776)
Sub-total	(99,522)	(297,066)	(144,675)	(70,934)	(13,105)
Net fee and commission income	236,719	73,198	271,709	46,160	123,678

(b) Disaggregation of income:

	Years ended December 31,						Three months ended March 31,			
	2017		2018		2019		2019		2020	
	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time
							(unaudited)			
Agency services fees	—	73,627	—	59,344	—	129,071	—	43,157	—	42,695
Settlement and clearing fees	35,627	—	35,394	—	58,054	—	19,706	—	20,412	—
Consultancy services fees	—	107,826	—	111,050	—	61,210	—	15,956	—	22,798
Bank card services fees	10,463	—	19,725	—	17,388	—	6,962	—	9,221	—
Acceptance and guarantee services fees	—	44,759	—	41,672	—	46,236	—	11,135	—	10,532
Finance leases services fees	—	49,236	—	89,323	—	87,119	—	16,193	—	25,502
Others	14,703	—	13,756	—	17,306	—	3,985	—	5,623	—
Total	60,793	275,448	68,875	301,389	92,748	323,636	30,653	86,441	35,256	101,527

5. NET TRADING (LOSSES)/GAINS

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Net (losses)/gains from debt securities	(38,253)	63,786	43,534	64,225	(17,859)
Net (losses)/gains from funds	—	(12)	(1,206)	467	1,524
Net losses from interbank deposits issued	(260)	—	—	—	—
Net (losses)/gains from investment management products	—	(15,710)	8,293	(3,384)	(8,299)
Net gains from derivatives	—	—	4,572	—	3,325
Exchange (losses)/gains	(524)	17,276	19,238	(1,659)	8,581
Total	(39,037)	65,340	74,431	59,649	(12,728)

6. NET GAINS ARISING FROM INVESTMENT SECURITIES

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Net gains of financial investments at fair value through profit or loss	48,326	1,781,376	1,233,362	313,710	258,119
Net (losses)/gains of financial investments at fair value through other comprehensive income	—	(8,910)	57,808	39,362	138,697
Net losses on disposal of held-to-maturity investments	(1,692)	—	—	—	—
Net losses on disposal of available-for-sale financial assets	(5,172)	—	—	—	—
Dividend income	2,740	880	1,200	—	—
Net gains of investment on derivatives	—	—	2,072	—	20,542
Total	44,202	1,773,346	1,294,442	353,072	417,358

7. OTHER OPERATING INCOME

Other operating income streams:

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Penalty income	1,118	1,799	739	301	326
Long-term unwithdrawn items income	5,610	906	869	—	566
Rental income	2,057	2,275	3,032	373	561
Government grants	11,383	14,392	9,223	2,660	302
Net gains/(losses) on disposal of property and equipments	13	(776)	—	—	(111)
Net gains/(losses) on disposal of repossessed assets	1,006	—	(14,257)	—	—
Others	587	611	759	46	3,545
Total	21,774	19,207	365	3,380	5,189

8. OPERATING EXPENSES

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Staff costs					
— Salaries, bonuses and allowances	599,939	526,585	624,167	162,956	167,594
— Social insurance and annuity	78,424	86,386	82,858	21,314	13,990
— Housing allowances	37,321	39,514	39,801	9,949	9,658
— Staff welfares	17,114	15,223	10,446	1,091	1,084
— Employee education expenses and labour union expenses	20,602	18,261	21,943	5,606	5,832
— Supplementary retirement benefits	34,878	23,673	20,298	4,435	5,235
Sub-total	788,278	709,642	799,513	205,351	203,393
Rental and property management expenses	121,294	124,898	11,893	3,897	3,796
Depreciation and amortisation	107,127	105,318	105,438	25,867	23,377
Interest expense on lease liabilities	—	—	22,907	5,902	5,524
Depreciation charge for the right-of-use assets	—	—	112,305	29,708	28,049
Taxes and surcharges	36,660	36,668	43,567	9,911	13,543
Auditors' remuneration	2,075	3,264	717	268	2,264
Other general and administrative expenses	383,752	368,988	366,002	85,419	78,326
Total	1,439,186	1,348,778	1,462,342	366,323	358,272

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

		Year ended December 31, 2017						
	Note	Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	Total
Executive directors								
Tan Xianguo (譚先國)		—	702	1,516	2,218	53	40	2,311
Meng Dongxiao (孟東曉)		—	632	1,288	1,920	79	48	2,047
Sai Zhiyi (賽志毅)	*(a)*	—	410	884	1,294	30	41	1,365
Zhang Renzhao (張仁釗)		—	562	1,061	1,623	53	40	1,716
Bi Qiubo (畢秋波)		—	562	1,061	1,623	53	40	1,716
Non-executive directors								
Li Hang (李航)		—	—	—	—	—	—	—
Wang Song (王松)		—	—	—	—	—	—	—
Zhang Liangjie (張亮界)	*(d)*	—	—	—	—	—	—	—
Yi Jijun (伊繼軍)		—	—	—	—	—	—	—
Wang Shouhua (王壽華)	*(g)*	150	—	—	150	—	—	150
Independent non-executive directors								
Ma Zhibin (馬志斌)	*(d)*	150	—	—	150	—	—	150
Liu Xue (劉學)		150	—	—	150	—	—	150
Lu Qing (路清)		150	—	—	150	—	—	150
Ma Ya (馬亞)	*(g)*	150	—	—	150	—	—	150
Sun Guomao (孫國茂)	*(a)*	75	—	—	75	—	—	75
Chen Gengzhao (陳耿釗)	*(a)*	—	—	—	—	—	—	—
Employee representative supervisor								
Deng Wei (鄧衛)		—	702	1,516	2,218	53	40	2,311
Liu Changjie (劉昌傑)		—	562	1,061	1,623	53	40	1,716
Zhang Xuening (張雪凝)		—	144	174	318	53	40	411
External supervisors								
Tan Degui (譚德貴)		150	—	—	150	—	—	150
Liu Zhiyong (劉志勇)	*(d)*	113	—	—	113	—	—	113
Teng Bo (滕波)		50	—	—	50	—	—	50
Shareholder representative supervisor								
Zhao Lijie (趙麗傑)		150	—	—	150	—	—	150
Zhou Hao (周浩)		150	—	—	150	—	—	150
Feng Yongdong (馮永東)		150	—	—	150	—	—	150
Total		1,588	4,276	8,561	14,425	427	329	15,181

	Note	Year ended December 31, 2018						
		Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	Total
Executive directors								
Tan Xianguo (譚先國)		—	702	1,530	2,232	57	28	2,317
Meng Dongxiao (孟東曉)		—	702	1,530	2,232	58	43	2,333
Zhang Renzhao (張仁釗)		—	562	1,071	1,633	57	28	1,718
Bi Qiubo (畢秋波)		—	562	1,071	1,633	57	28	1,718
Tao Zunjian (陶遵建)	*(e)*	—	—	—	—	—	—	—
Liu Jinping (劉金平)	*(c), (f)*	—	374	249	623	43	29	695
Non-executive directors								
Li Hang (李航)		—	—	—	—	—	—	—
Wang Song (王松)	*(c)*	—	—	—	—	—	—	—
Zhang Liangjie (張亮界)	*(d)*	—	—	—	—	—	—	—
Sun Chenglong (孫成龍)	*(c)*	—	—	—	—	—	—	—
Yi Jijun (伊繼軍)		—	—	—	—	—	—	—
Wang Shouhua (王壽華)	*(g)*	150	—	—	150	—	—	150
Independent non-executive directors								
Ma Zhibin (馬志斌)	*(d)*	75	—	—	75	—	—	75
Liu Xue (劉學)		150	—	—	150	—	—	150
Lu Qing (路清)		150	—	—	150	—	—	150
Ma Ya (馬亞)	*(g)*	150	—	—	150	—	—	150
Sun Guomao (孫國茂)		150	—	—	150	—	—	150
Zhang Guanghong (張廣鴻)	*(e)*	—	—	—	—	—	—	—
Employee representative supervisor								
Deng Wei (鄧衛)		—	702	1,530	2,232	57	28	2,317
Liu Changjie (劉昌傑)		—	562	1,071	1,633	57	28	1,718
Zhang Xuening (張雪凝)		—	144	175	319	57	30	406
External supervisors								
Tan Degui (譚德貴)		150	—	—	150	—	—	150
Liu Zhiyong (劉志勇)	*(d)*	—	—	—	—	—	—	—
Teng Bo (滕波)		150	—	—	150	—	—	150
Li Yuanfen (李元芬)	*(b)*	—	—	—	—	—	—	—
Shareholder representative supervisor								
Zhao Lijie (趙麗傑)		150	—	—	150	—	—	150
Zhou Hao (周浩)		150	—	—	150	—	—	150
Feng Yongdong (馮永東)		150	—	—	150	—	—	150
Total		1,575	4,310	8,227	14,112	443	242	14,797

		Year ended December 31, 2019						
	Note	Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	Total
Executive directors								
Tan Xianguo (譚先國)		—	702	1,433	2,135	52	33	2,220
Meng Dongxiao (孟東曉)		—	702	1,433	2,135	79	47	2,261
Zhang Renzhao (張仁釗)		—	562	1,003	1,565	52	33	1,650
Bi Qiubo (畢秋波)		—	562	1,003	1,565	52	33	1,650
Tao Zunjian (陶遵建)	*(e)*	—	562	1,003	1,565	52	33	1,650
Non-executive directors								
Li Hang (李航)		—	—	—	—	—	—	—
Wang Song (王松)		—	—	—	—	—	—	—
Sun Chenglong (孫成龍)	*(c)*	—	—	—	—	—	—	—
Yi Jijun (伊繼軍)		—	—	—	—	—	—	—
Wang Shouhua (王壽華)	*(g)*	150	—	—	150	—	—	150
Independent non-executive directors								
Liu Xue (劉學)		150	—	—	150	—	—	150
Lu Qing (路清)		150	—	—	150	—	—	150
Ma Ya (馬亞)	*(g)*	150	—	—	150	—	—	150
Sun Guomao (孫國茂)		150	—	—	150	—	—	150
Zhang Guanghong (張廣鴻)	*(e)*	150	—	—	150	—	—	150
Employee representative supervisor								
Deng Wei (鄧衛)		—	702	1,433	2,135	52	33	2,220
Liu Changjie (劉昌傑)		—	562	1,003	1,565	52	33	1,650
Zhang Xuening (張雪凝)		—	144	183	327	52	36	415
External supervisors								
Tan Degui (譚德貴)		150	—	—	150	—	—	150
Teng Bo (滕波)		150	—	—	150	—	—	150
Li Yuanfen (李元芬)	*(b)*	—	—	—	—	—	—	—
Shareholder representative supervisor								
Zhao Lijie (趙麗傑)		150	—	—	150	—	—	150
Zhou Hao (周浩)		150	—	—	150	—	—	150
Feng Yongdong (馮永東)		150	—	—	150	—	—	150
Total		1,650	4,498	8,494	14,642	443	281	15,366

		Three months ended March 31, 2019 (unaudited)						
	Note	Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	Total
Executive directors								
Tan Xianguo (譚先國)		—	176	163	339	15	6	360
Meng Dongxiao (孟東曉)		—	176	163	339	15	10	364
Zhang Renzhao (張仁釗)		—	140	110	250	15	6	271
Bi Qiubo (畢秋波)		—	140	110	250	15	6	271
Tao Zunjian (陶遵建)	*(e)*	—	140	110	250	15	6	271
Non-executive directors								
Li Hang (李航)		—	—	—	—	—	—	—
Wang Song (王松)		—	—	—	—	—	—	—
Sun Chenglong (孫成龍)	*(c)*	—	—	—	—	—	—	—
Yi Jijun (伊繼軍)		—	—	—	—	—	—	—
Wang Shouhua (王壽華)	*(g)*	38	—	—	38	—	—	38
Independent non-executive directors								
Liu Xue (劉學)		38	—	—	38	—	—	38
Lu Qing (路清)		38	—	—	38	—	—	38
Ma Ya (馬亞)	*(g)*	38	—	—	38	—	—	38
Sun Guomao (孫國茂)		38	—	—	38	—	—	38
Zhang Guanghong (張廣鴻)	*(e)*	38	—	—	38	—	—	38
Employee representative supervisor								
Deng Wei (鄧衛)		—	176	163	339	15	6	360
Liu Changjie (劉昌傑)		—	140	110	250	15	6	271
Zhang Xuening (張雪凝)		—	36	27	63	15	6	84
External supervisors								
Tan Degui (譚德貴)		38	—	—	38	—	—	38
Teng Bo (滕波)		38	—	—	38	—	—	38
Li Yuanfen (李元芬)	*(b)*	—	—	—	—	—	—	—
Shareholder representative supervisor								
Zhao Lijie (趙麗傑)		38	—	—	38	—	—	38
Zhou Hao (周浩)		38	—	—	38	—	—	38
Feng Yongdong (馮永東)		38	—	—	38	—	—	38
Total		418	1,124	956	2,498	120	52	2,670

	Note	Three months ended March 31, 2020						
		Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	Total
Executive directors								
Tan Xianguo (譚先國)		—	176	163	339	6	6	351
Meng Dongxiao (孟東曉)		—	176	163	339	25	10	374
Zhang Renzhao (張仁釗)		—	140	110	250	6	6	262
Bi Qiubo (畢秋波)		—	140	110	250	6	6	262
Tao Zunjian (陶遵建)	*(e)*	—	140	110	250	6	6	262
Non-executive directors								
Li Hang (李航)		—	—	—	—	—	—	—
Wang Song (王松)		—	—	—	—	—	—	—
Sun Chenglong (孫成龍)	*(c)*	—	—	—	—	—	—	—
Yi Jijun (伊繼軍)		—	—	—	—	—	—	—
Wang Shouhua (王壽華)	*(g)*	38	—	—	38	—	—	38
Independent non-executive directors								
Liu Xue (劉學)		38	—	—	38	—	—	38
Lu Qing (路清)		38	—	—	38	—	—	38
Ma Ya (馬亞)	*(g)*	38	—	—	38	—	—	38
Sun Guomao (孫國茂)		38	—	—	38	—	—	38
Zhang Guanghong (張廣鴻)	*(e)*	38	—	—	38	—	—	38
Employee representative supervisor								
Deng Wei (鄧衛)		—	176	163	339	6	6	351
Liu Changjie (劉昌傑)		—	140	110	250	6	6	262
Zhang Xuening (張雪凝)		—	36	27	63	6	6	75
External supervisors								
Tan Degui (譚德貴)		38	—	—	38	—	—	38
Teng Bo (滕波)		38	—	—	38	—	—	38
Li Yuanfen (李元芬)	*(b)*	—	—	—	—	—	—	—
Shareholder representative supervisor								
Zhao Lijie (趙麗傑)		38	—	—	38	—	—	38
Zhou Hao (周浩)		38	—	—	38	—	—	38
Feng Yongdong (馮永東)		38	—	—	38	—	—	38
Total		418	1,124	956	2,498	67	52	2,617

Notes:

(a) In the extraordinary general meeting held on July 21, 2017, Sai Zhiyi resigned as executive director, Chen Gengzhao resigned as independent non-executive director, Sun Guomao was elected as independent non-executive director.

(b) In the general meeting held on April 16, 2018, Li Yuanfen was elected as external supervisor.

(c) In the general meeting held on April 16, 2018, Liu Jinping was elected as executive director; Sun Chenglong was elected as non-executive director.

(d) On April 16, 2018, Ma Zhibin resigned as independent non-executive director, Zhang Liangjie resigned as non-executive director, Liu Zhiyong resigned as external supervisor.

(e) In the extraordinary general meeting held on December 17, 2018, Tao Zunjian was elected as executive director; Zhang Guanghong was elected as independent non-executive director.

(f) On December 17, 2018, Liu Jinping resigned as executive director.

(g) On February 29, 2020, Wang Shouhua resigned as executive director, Ma Ya resigned as independent non-executive director.

There was no amount paid during the Track Record Period to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join the Group. During the year ended December 31, 2017, Chen Gengzhao, an independent non-executive director of the Group has waived his remuneration package. Except for this, there was no other arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Track Record Period.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the years ended December 31, 2017, 2018 and 2019 and three months ended March 31, 2019 and 2020, the five individuals with highest emoluments include 4 directors and 1 supervisor, 4 directors and 1 supervisor, 3 directors and 1 supervisor, 2 directors and 1 supervisor (unaudited) and 2 directors and 1 supervisor of the Bank respectively. Their emoluments are disclosed in Note 9. The emoluments for the five highest paid individuals for the years ended December 31, 2017, 2018 and 2019 and three months ended March 31, 2019 and 2020 are as follows:

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Salaries and other emoluments	3,160	3,230	3,229	809	808
Discretionary bonuses	6,442	6,732	6,306	710	710
Contributions to pension schemes	291	286	290	75	55
Others	208	155	197	41	42
Total	10,101	10,403	10,022	1,635	1,615

The number of these individuals whose emoluments are within the following bands is set out below:

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Nil-RMB500,000	—	—	—	5	5
RMB500,001-1,000,000	—	—	—	—	—
RMB1,000,001-1,500,000	—	—	—	—	—
RMB1,500,001-2,000,000	2	2	2	—	—
RMB2,000,001-2,500,000	3	3	3	—	—

None of these individuals received any inducement to join or upon joining the Group or compensation for loss of office, or waived any emoluments during the Track Record Period.

11. IMPAIRMENT LOSSES ON ASSETS

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Financial assets held under resale agreements	—	(12,962)	2,643	1,228	(3,559)
Loans and advances to customers	331,552	1,225,975	1,361,133	317,316	530,002
Financial investments	87,016	10,307	132,011	12,143	67,226
Finance lease receivables	60,447	115,576	138,446	12,303	32,093
Credit commitments	—	(8,935)	5,416	(1,341)	4,172
Deposits with banks and other financial institutions	—	(43)	(32)	(32)	—
Placements with banks and other financial institutions	—	2	(14)	(2)	9
Others	32,162	5,366	31,565	4,677	4,406
Total	511,177	1,335,286	1,671,168	346,292	634,349

12. INCOME TAX EXPENSE

(a) Income tax expense:

	Note	Years ended December 31, 2017	2018	2019	Three months ended March 31, 2019 (unaudited)	2020
Current tax		382,651	422,962	658,715	50,046	205,515
Deferred tax	*23*	(27,804)	(290,774)	(368,703)	20,399	(124,832)
Total		354,847	132,188	290,012	70,445	80,683

(b) Reconciliations between income tax expense and accounting profit are as follows:

	Note	Years ended December 31, 2017	2018	2019	Three months ended March 31, 2019 (unaudited)	2020
Profit before tax		1,957,598	1,149,474	1,813,673	446,558	472,502
Statutory tax rate		25%	25%	25%	25%	25%
Income tax calculated at statutory tax rate		489,400	287,369	453,418	111,640	118,126
Non-deductible expenses		989	7,313	2,524	484	402
Non-taxable income	*(i)*	(135,542)	(162,494)	(165,930)	(41,679)	(37,845)
Income tax expense		354,847	132,188	290,012	70,445	80,683

(i) The non-taxable income mainly represents the interest income arising from the PRC government bonds, and dividends from domestic enterprises.

13. BASIC AND DILUTED EARNINGS PER SHARE

	Note	Years ended December 31, 2017	2018	2019	Three months ended March 31, 2019 (unaudited)	2020
Net profit attributable to equity shareholders of the Bank		1,566,934	964,398	1,439,696	355,938	359,401
Weighted average number of ordinary shares (in thousands)	*(a)*	4,171,197	4,179,964	4,971,197	4,971,197	4,971,197
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.38	0.23	0.29	0.07	0.07

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the Track Record Period.

(a) Weighted average number of ordinary shares (in thousands)

	Years ended December 31,			Three months ended March 31,	
	2017	**2018**	**2019**	**2019**	**2020**
				(unaudited)	
Number of ordinary shares at the beginning of the year/period	4,171,197	4,171,197	4,971,197	4,971,197	4,971,197
Weighted average number of ordinary shares issued during the year/period	—	8,767	—	—	—
Weighted average number of ordinary shares	4,171,197	4,179,964	4,971,197	4,971,197	4,971,197

Basic earnings per share have been computed by taking into account of the aforesaid shares subscribed by the investors for the Track Record Period.

The Bank has received cash injection amounting to RMB800 million from the investors to subscribe 800,000,000 shares. The Bank obtained approval from the former Shandong Bureau of the China Banking Regulatory Commission on Approving Changes in Registered Capital of Weihai City Commercial Bank Company Limited (山東省銀保監局以魯銀保監准[2018]No.84) on December 27, 2018.

14. CASH AND DEPOSITS WITH THE CENTRAL BANK

The Group and the Bank

		At December 31,			At March 31,
	Notes	**2017**	**2018**	**2019**	**2020**
Cash on hand		209,599	178,100	194,466	283,658
Deposits with the central bank					
— Statutory deposit reserves	*(a)*	15,205,996	12,327,433	13,273,083	13,052,659
— Surplus deposit reserves	*(b)*	3,728,478	5,957,320	7,725,599	5,824,341
— Fiscal deposits		5,448	1,947	10,688	95,478
Sub-total		18,939,922	18,286,700	21,009,370	18,972,478
Total		19,149,521	18,464,800	21,203,836	19,256,136

Notes:

(a) The Group places statutory deposit reserves with the PBoC in accordance with relevant regulations. As at the end of each of the Track Record Period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	At December 31,			At March 31,
	2017	**2018**	**2019**	**2020**
Reserve ratio for RMB deposits	13.5%	11%	9.5%	9%
Reserve ratio for foreign currency deposits	5%	5%	5%	5%

The statutory deposit reserves are not available for the Bank's daily business. The subsidiary of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBoC.

(b) The surplus deposit reserves are maintained with the PBoC for the purpose of clearing.

15. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

The Group

	At December 31,			At March 31,
	2017	2018	2019	2020
Deposits in mainland China				
— Banks	1,054,615	783,064	1,529,077	516,274
Sub-total	1,054,615	783,064	1,529,077	516,274
Deposits outside mainland China				
— Banks	74,880	253,165	497,769	548,579
Sub-total	74,880	253,165	497,769	548,579
Interests accrued	—	18,655	62	78
Less: Provision for impairment losses	—	(32)	—	—
Total	1,129,495	1,054,852	2,026,908	1,064,931

The Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Deposits in mainland China				
— Banks	954,549	782,631	1,529,074	496,225
— Other financial institutions *(Note)*	1,500,000	4,571	—	—
Sub-total	2,454,549	787,202	1,529,074	496,225
Deposits outside mainland China				
— Banks	74,880	253,165	497,769	548,579
Sub-total	74,880	253,165	497,769	548,579
Interests accrued	—	18,655	62	78
Less: Provision for impairment losses	—	(32)	—	—
Total	2,529,429	1,058,990	2,026,905	1,044,882

Note: The balance represented the deposits with Shandong Tongda Financial Leasing Co., Ltd., a subsidiary of the Bank.

16. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Placements in mainland China				
— Banks	1,202,293	1,264,280	500,000	566,808
Sub-total	1,202,293	1,264,280	500,000	566,808
Interests accrued	—	7,664	7,206	1,155
Less: Provision for impairment losses	—	(15)	(1)	(9)
Total	1,202,293	1,271,929	507,205	567,954

17. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
In mainland China				
— Banks	12,318,700	1,392,000	5,389,300	—
— Other financial institutions	2,739,430	—	—	—
Sub-total	15,058,130	1,392,000	5,389,300	—
Interests accrued	—	1,190	821	—
Less: Provision for impairment losses	—	(915)	(3,559)	—
Total	15,058,130	1,392,275	5,386,562	—

(b) Analysed by type of collateral held

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Securities				
— Government	1,368,970	200,000	593,800	—
— Policy banks	12,871,160	1,192,000	4,795,500	—
— Commercial banks and other financial institutions	818,000	—	—	—
Sub-total	15,058,130	1,392,000	5,389,300	—
Interests accrued	—	1,190	821	—
Less: Provision for impairment losses	—	(915)	(3,559)	—
Total	15,058,130	1,392,275	5,386,562	—

As at December 31, 2017, 2018 and 2019, certain financial assets held under buyout resale agreements were pledged for repurchase agreements (Note 25(a)).

During the three months ended March 31, 2020, the Group has disposed of all its financial assets held under resale agreements.

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

The Group

	At December 31, 2017
Corporate loans and advances	51,197,692
Personal loans	
— Residential mortgage loans	6,029,687
— Personal consumption loans	828,717
— Personal business loans	4,520,874
— Credit cards	23,852
Sub-total	11,403,130
Discounted bills	3,917,797
Gross loans and advances to customers	66,518,619
Less: Provision for impairment losses	
— Individually assessed.	(399,039)
— Collectively assessed	(1,322,166)
Total provision for impairment losses	(1,721,205)
Net loans and advances to customers	64,797,414

	At December 31,		At March 31,
	2018	2019	2020
Loans and advances to customers measured at amortised cost:			
Corporate loans and advances	53,410,603	63,499,110	70,790,753
Personal loans			
— Residential mortgage loans	7,848,132	9,968,942	10,523,387
— Personal consumption loans	793,333	1,980,518	2,554,253
— Personal business loans	6,488,383	9,882,221	10,372,328
— Credit cards	51,146	459,753	514,590
Sub-total	15,180,994	22,291,434	23,964,558
Interests accrued	350,218	413,389	533,643
Less: Provision for loans and advances to customers measured at amortised cost	(2,229,404)	(2,753,357)	(2,993,881)
Sub-total	66,712,411	83,450,576	92,295,073
Loans and advances to customers measured at fair value through other comprehensive income:			
Discounted bills	6,604,093	6,661,066	8,910,600
Net loans and advances to customers	73,316,504	90,111,642	101,205,673

The Bank

	At December 31, 2017
Corporate loans and advances	51,197,692
Personal loans	
— Residential mortgage loans	6,029,687
— Personal consumption loans	828,717
— Personal business loans	4,520,874
— Credit cards	23,852
Sub-total	11,403,130
Discounted bills	3,917,797
Gross loans and advances to customers	66,518,619
Less: Provision for impairment losses	
— Individually assessed	(399,039)
— Collectively assessed	(1,322,166)
Total provision for impairment losses	(1,721,205)
Net loans and advances to customers	64,797,414

	At December 31,		At March 31,
	2018	2019	2020
Loans and advances to customers measured at amortised cost:			
Corporate loans and advances	54,510,603	64,699,110	72,140,753
Personal loans			
— Residential mortgage loans	7,848,132	9,968,942	10,523,387
— Personal consumption loans	793,333	1,980,518	2,554,253
— Personal business loans	6,488,383	9,882,221	10,372,328
— Credit cards	51,146	459,753	514,590
Sub-total	15,180,994	22,291,434	23,964,558
Interests accrued	350,651	437,623	541,006
Less: Provision for loans and advances to customers measured at amortised cost	(2,229,404)	(2,753,357)	(2,993,881)
Sub-total	67,812,844	84,674,810	93,652,436
Loans and advances to customers measured at fair value through other comprehensive income:			
Discounted bills	6,604,093	6,661,066	8,910,600
Net loans and advances to customers	74,416,937	91,335,876	102,563,036

(b) Loans and advances to customers (exclusive interests accrued) analysed by industry sector

The Group

	At December 31, 2017		
	Amount	**Percentage**	**Loans and advances secured by collaterals**
Manufacturing	21,351,209	32.10%	5,069,701
Wholesale and retail	7,913,653	11.90%	3,024,743
Water conservancy, environment and public facilities management	6,098,804	9.17%	1,748,528
Construction	3,950,120	5.94%	2,427,322
Leasing and business services	3,905,543	5.87%	1,255,385
Real estate	2,048,469	3.08%	1,903,969
Agriculture, forestry, animal husbandry and fishery	1,235,743	1.86%	544,009
Electricity, gas and water production and supply	1,211,000	1.82%	70,000
Transportation, warehousing and postal services	873,920	1.31%	348,458
Hygiene and social welfare	475,100	0.71%	77,600
Culture, sports and entertainment	417,090	0.63%	211,890
Education	323,291	0.49%	65,661
Information transmission, software and information technology services	145,626	0.22%	59,071
Others	1,248,124	1.87%	350,440
Sub-total of corporate loans and advances	51,197,692	76.97%	17,156,777
Personal loans	11,403,130	17.14%	7,662,772
Discounted bills	3,917,797	5.89%	3,917,797
Gross loans and advances to customers	66,518,619	100.00%	28,737,346

	At December 31, 2018		
	Amount	**Percentage**	**Loans and advances secured by collaterals**
Manufacturing	20,597,438	27.39%	5,530,886
Wholesale and retail	7,435,348	9.89%	2,829,261
Leasing and business services	6,899,802	9.18%	1,908,867
Water conservancy, environment and public facilities management	5,064,697	6.74%	2,101,360
Construction	4,418,320	5.87%	1,971,849
Real estate	1,872,470	2.49%	1,724,470
Agriculture, forestry, animal husbandry and fishery	1,453,545	1.93%	850,114
Transportation, warehousing and postal services	1,412,469	1.88%	285,569
Electricity, gas and water production and supply	1,291,550	1.72%	97,500
Culture, sports and entertainment	837,119	1.11%	616,200
Hygiene and social welfare	563,395	0.75%	147,700
Education	263,324	0.35%	46,524
Information transmission, software and information technology services	143,010	0.19%	75,690
Others	1,158,116	1.54%	377,072
Sub-total of corporate loans and advances	53,410,603	71.03%	18,563,062
Personal loans	15,180,994	20.19%	11,092,635
Discounted bills	6,604,093	8.78%	6,604,093
Gross loans and advances to customers	75,195,690	100.00%	36,259,790

	At December 31, 2019		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	17,571,499	19.01%	5,609,041
Leasing and business services	10,759,483	11.64%	2,722,922
Wholesale and retail	7,564,689	8.18%	3,489,972
Construction	6,416,671	6.94%	2,363,272
Water conservancy, environment and public facilities management	5,642,356	6.10%	1,914,250
Real estate	4,581,786	4.96%	4,453,036
Agriculture, forestry, animal husbandry and fishery	1,881,861	2.04%	1,183,525
Transportation, warehousing and postal services	1,773,582	1.92%	311,026
Education	1,666,622	1.80%	812,000
Electricity, gas and water production and supply	1,138,975	1.23%	76,800
Hygiene and social welfare	1,048,090	1.13%	317,400
Information transmission, software and information technology services	1,029,929	1.11%	392,929
Culture, sports and entertainment	734,550	0.79%	550,650
Others	1,689,017	1.83%	314,257
Sub-total of corporate loans and advances	63,499,110	68.68%	24,511,080
Personal loans	22,291,434	24.11%	15,329,005
Discounted bills	6,661,066	7.21%	6,661,066
Gross loans and advances to customers	92,451,610	100.00%	46,501,151

	At March 31, 2020		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	17,494,078	16.88%	6,003,817
Leasing and business services	10,905,252	10.52%	3,235,443
Construction	8,408,201	8.11%	3,388,002
Water conservancy, environment and public facilities management	7,501,412	7.24%	2,374,750
Wholesale and retail	7,429,756	7.17%	3,703,762
Real estate	5,573,491	5.38%	5,408,851
Agriculture, forestry, animal husbandry and fishery	2,442,141	2.36%	1,709,876
Electricity, gas and water production and supply	2,376,875	2.29%	174,000
Education	2,066,472	1.99%	812,000
Transportation, warehousing and postal services	1,824,524	1.76%	311,662
Hygiene and social welfare	1,052,470	1.02%	342,800
Culture, sports and entertainment	965,800	0.93%	757,800
Information transmission, software and information technology services	425,979	0.41%	393,079
Others	2,324,302	2.23%	428,029
Sub-total of corporate loans and advances	70,790,753	68.29%	29,043,871
Personal loans	23,964,558	23.11%	16,396,592
Discounted bills	8,910,600	8.60%	8,910,600
Gross loans and advances to customers	103,665,911	100.00%	54,351,063

The Bank

	At December 31, 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	21,351,209	32.10%	5,069,701
Wholesale and retail	7,913,653	11.90%	3,024,743
Water conservancy, environment and public facilities management	6,098,804	9.17%	1,748,528
Construction	3,950,120	5.94%	2,427,322
Leasing and business services	3,905,543	5.87%	1,255,385
Real estate	2,048,469	3.08%	1,903,969
Agriculture, forestry, animal husbandry and fishery	1,235,743	1.86%	544,009
Electricity, gas and water production and supply	1,211,000	1.82%	70,000
Transportation, warehousing and postal services	873,920	1.31%	348,458
Hygiene and social welfare	475,100	0.71%	77,600
Culture, sports and entertainment	417,090	0.63%	211,890
Education	323,291	0.49%	65,661
Information transmission, software and information technology services	145,626	0.22%	59,071
Others	1,248,124	1.87%	350,440
Sub-total of corporate loans and advances	51,197,692	76.97%	17,156,777
Personal loans	11,403,130	17.14%	7,662,772
Discounted bills	3,917,797	5.89%	3,917,797
Gross loans and advances to customers	66,518,619	100.00%	28,737,346

	At December 31, 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	20,597,438	27.00%	5,530,886
Wholesale and retail	7,435,348	9.75%	2,829,261
Leasing and business services	6,899,802	9.04%	1,908,867
Water conservancy, environment and public facilities management	5,064,697	6.64%	2,101,360
Construction	4,418,320	5.79%	1,971,849
Real estate	1,872,470	2.45%	1,724,470
Agriculture, forestry, animal husbandry and fishery	1,453,545	1.91%	850,114
Transportation, warehousing and postal services	1,412,469	1.85%	285,569
Electricity, gas and water production and supply	1,291,550	1.69%	97,500
Culture, sports and entertainment	837,119	1.10%	616,200
Hygiene and social welfare	563,395	0.74%	147,700
Education	263,324	0.34%	46,524
Information transmission, software and information technology services	143,010	0.19%	75,690
Others	2,258,116	2.96%	377,072
Sub-total of corporate loans and advances	54,510,603	71.45%	18,563,062
Personal loans	15,180,994	19.89%	11,092,635
Discounted bills	6,604,093	8.66%	6,604,093
Gross loans and advances to customers	76,295,690	100.00%	36,259,790

	At December 31, 2019		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	17,571,499	18.76%	5,609,041
Leasing and business services	10,759,483	11.49%	2,722,922
Wholesale and retail	7,564,689	8.08%	3,489,972
Construction	6,416,671	6.85%	2,363,272
Water conservancy, environment and public facilities management	5,642,356	6.02%	1,914,250
Real estate	4,581,786	4.89%	4,453,036
Agriculture, forestry, animal husbandry and fishery	1,881,861	2.01%	1,183,525
Transportation, warehousing and postal services	1,773,582	1.89%	311,026
Education	1,666,622	1.78%	812,000
Electricity, gas and water production and supply	1,138,975	1.22%	76,800
Hygiene and social welfare	1,048,090	1.12%	317,400
Information transmission, software and information technology services	1,029,929	1.10%	392,929
Culture, sports and entertainment	734,550	0.78%	550,650
Others	2,889,017	3.09%	314,257
Sub-total of corporate loans and advances	64,699,110	69.08%	24,511,080
Personal loans	22,291,434	23.80%	15,329,005
Discounted bills	6,661,066	7.12%	6,661,066
Gross loans and advances to customers	93,651,610	100.00%	46,501,151

	At March 31, 2020		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	17,494,078	16.66%	6,003,817
Leasing and business services	10,905,252	10.38%	3,235,443
Construction	8,408,201	8.01%	3,388,002
Water conservancy, environment and public facilities management	7,501,412	7.14%	2,374,750
Wholesale and retail	7,429,756	7.07%	3,703,762
Real estate	5,573,491	5.31%	5,408,851
Agriculture, forestry, animal husbandry and fishery	2,442,141	2.33%	1,709,876
Electricity, gas and water production and supply	2,376,875	2.26%	174,000
Education	2,066,472	1.97%	812,000
Transportation, warehousing and postal services	1,824,524	1.74%	311,662
Hygiene and social welfare	1,052,470	1.00%	342,800
Culture, sports and entertainment	965,800	0.92%	757,800
Information transmission, software and information technology services	425,979	0.41%	393,079
Others	3,674,302	3.50%	428,029
Sub-total of corporate loans and advances	72,140,753	68.70%	29,043,871
Personal loans	23,964,558	22.82%	16,396,592
Discounted bills	8,910,600	8.48%	8,910,600
Gross loans and advances to customers	105,015,911	100.00%	54,351,063

As at the end of each of the Track Record Period and during the respective periods, detailed information of the impaired loans and advances to customers (exclusive interests accrued) as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

The Group

	At December 31, 2017				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	438,459	(183,236)	—	(80,998)	(106,455)
Wholesale and retail	415,424	(184,105)	—	(70,571)	(11,466)

	At December 31, 2018					
	Credit-impaired loans and advances	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Impairment losses charged during the year	Written-off during the year
Manufacturing	961,135	—	(1,818)	(563,962)	—	(727,935)

	At December 31, 2019					
	Credit-impaired loans and advances	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Impairment losses charged during the year	Written-off during the year
Manufacturing	785,228	(63)	(2,055)	(426,217)	—	(641,199)
Leasing and business services	—	—	—	—	—	—

	At March 31, 2020					
	Credit-impaired loans and advances	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	Impairment losses charged during the period	Written-off during the period
Manufacturing	906,161	—	—	(453,080)	—	(57,875)
Leasing and business services	—	—	—	—	—	—

The Bank

	At December 31, 2017				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	438,459	(183,236)	—	(80,998)	(106,455)
Wholesale and retail	415,424	(184,105)	—	(70,571)	(11,466)

	At December 31, 2018					
	Credit-impaired loans and advances	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Impairment losses charged during the year	Written-off during the year
Manufacturing	961,135	—	(1,818)	(563,962)	—	(727,935)

	At December 31, 2019					
	Credit-impaired loans and advances	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Impairment losses charged during the year	Written-off during the year
Manufacturing	785,228	(63)	(2,055)	(426,217)	—	(641,199)
Leasing and business services	—	—	—	—	—	—

	At March 31, 2020					
	Credit-impaired loans and advances	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	Impairment losses charged during the period	Written-off during the period
Manufacturing	906,161	—	—	(453,080)	—	(57,875)
Leasing and business services	—	—	—	—	—	—

(c) Analysed by type of collateral

The Group

	At December 31, 2017
Unsecured loans	1,800,415
Guaranteed loans	35,980,858
Collateralised loans	21,176,976
Pledged loans	3,642,573
Discounted bills	3,917,797
Gross loans and advances to customers	66,518,619
Less: Provision for impairment losses	
— Individually assessed	(399,039)
— Collectively assessed	(1,322,166)
Total provision for impairment losses	(1,721,205)
Net loans and advances to customers	64,797,414

	At December 31,		At March 31,
	2018	2019	2020
Unsecured loans	2,127,186	7,020,674	8,196,858
Guaranteed loans	36,808,714	38,929,785	41,117,990
Collateralised loans	26,252,240	35,719,775	38,973,190
Pledged loans	3,403,457	4,120,310	6,467,273
Discounted bills	6,604,093	6,661,066	8,910,600
Sub-total	75,195,690	92,451,610	103,665,911
Interests accrued	350,218	413,389	533,643
Gross loans and advances to customers	75,545,908	92,864,999	104,199,554
Less: Provision for loans and advances to customers measured at amortised cost.	(2,229,404)	(2,753,357)	(2,993,881)
Net loans and advances to customers	73,316,504	90,111,642	101,205,673

The Bank

	At December 31, 2017
Unsecured loans	1,800,415
Guaranteed loans	35,980,858
Collateralised loans	21,176,976
Pledged loans	3,642,573
Discounted bills	3,917,797
Gross loans and advances to customers	66,518,619
Less: Provision for impairment losses	
— Individually assessed	(399,039)
— Collectively assessed	(1,322,166)
Total provision for impairment losses	(1,721,205)
Net loans and advances to customers	64,797,414

	At December 31, 2018	At December 31, 2019	At March 31, 2020
Unsecured loans	3,227,186	8,220,674	9,546,858
Guaranteed loans	36,808,714	38,929,785	41,117,990
Collateralised loans	26,252,240	35,719,775	38,973,190
Pledged loans	3,403,457	4,120,310	6,467,273
Discounted bills	6,604,093	6,661,066	8,910,600
Sub-total	76,295,690	93,651,610	105,015,911
Interests accrued	350,651	437,623	541,006
Gross loans and advances to customers	76,646,341	94,089,233	105,556,917
Less: Provision for loans and advances to customers measured at amortised cost	(2,229,404)	(2,753,357)	(2,993,881)
Net loans and advances to customers	74,416,937	91,335,876	102,563,036

(d) Overdue loans (exclusive interests accrued) analysed by overdue period

The Group

	At December 31, 2017				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	464	650	1,218	—	2,332
Guaranteed loans	667,096	411,916	448,905	493	1,528,410
Collateralised loans	245,636	19,666	78,096	1,800	345,198
Pledged loans	9,190	—	9,000	—	18,190
Total	922,386	432,232	537,219	2,293	1,894,130
As a percentage of gross loans and advances to customers	1.39%	0.65%	0.81%	0.00%	2.85%

	At December 31, 2018				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	811	629	421	18	1,879
Guaranteed loans	1,662,692	721,907	242,070	12,963	2,639,632
Collateralised loans	259,217	176,247	15,264	13,879	464,607
Pledged loans	22,200	93,990	—	—	116,190
Total	1,944,920	992,773	257,755	26,860	3,222,308
As a percentage of gross loans and advances to customers	2.59%	1.32%	0.34%	0.04%	4.29%

	At December 31, 2019				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	56,169	1,204	611	—	57,984
Guaranteed loans	2,252,061	729,811	491,689	45,141	3,518,702
Collateralised loans	317,980	158,055	34,212	11,566	521,813
Pledged loans	2,200	—	—	—	2,200
Total	2,628,410	889,070	526,512	56,707	4,100,699
As a percentage of gross loans and advances to customers	2.84%	0.96%	0.57%	0.06%	4.43%

	At March 31, 2020				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	99,621	5,335	909	8	105,873
Guaranteed loans	1,511,444	924,081	560,376	46,420	3,042,321
Collateralised loans	904,380	256,064	57,029	12,216	1,229,689
Pledged loans	5,000	2,200	—	—	7,200
Total	2,520,445	1,187,680	618,314	58,644	4,385,083
As a percentage of gross loans and advances to customers	2.43%	1.15%	0.60%	0.06%	4.24%

The Bank

	At December 31, 2017				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	464	650	1,218	—	2,332
Guaranteed loans	667,096	411,916	448,905	493	1,528,410
Collateralised loans	245,636	19,666	78,096	1,800	345,198
Pledged loans	9,190	—	9,000	—	18,190
Total	922,386	432,232	537,219	2,293	1,894,130
As a percentage of gross loans and advances to customers	1.39%	0.65%	0.81%	0.00%	2.85%

	At December 31, 2018				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	811	629	421	18	1,879
Guaranteed loans	1,662,692	721,907	242,070	12,963	2,639,632
Collateralised loans	259,217	176,247	15,264	13,879	464,607
Pledged loans	22,200	93,990	—	—	116,190
Total	1,944,920	992,773	257,755	26,860	3,222,308
As a percentage of gross loans and advances to customers	2.55%	1.30%	0.34%	0.04%	4.23%

	At December 31, 2019				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	56,169	1,204	611	—	57,984
Guaranteed loans	2,252,061	729,811	491,689	45,141	3,518,702
Collateralised loans	317,980	158,055	34,212	11,566	521,813
Pledged loans	2,200	—	—	—	2,200
Total	2,628,410	889,070	526,512	56,707	4,100,699
As a percentage of gross loans and advances to customers	2.81%	0.95%	0.56%	0.06%	4.38%

	At March 31, 2020				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	99,621	5,335	909	8	105,873
Guaranteed loans	1,511,444	924,081	560,376	46,420	3,042,321
Collateralised loans	904,380	256,064	57,029	12,216	1,229,689
Pledged loans	5,000	2,200	—	—	7,200
Total	2,520,445	1,187,680	618,314	58,644	4,385,083
As a percentage of gross loans and advances to customers	2.40%	1.13%	0.59%	0.06%	4.18%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

(e) Analysis of loans and advances and provision for impairment losses

The Group

	At December 31, 2017				
	Loans and advances for which provision are collectively assessed *(Note (i))*	Impaired loans and advances *(Note (ii))* For which provision are collectively assessed	Impaired loans and advances *(Note (ii))* For which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	65,540,258	—	978,361	66,518,619	1.47%
Less: Provision for impairment losses	(1,322,166)	—	(399,039)	(1,721,205)	
Net loans and advances to customers	64,218,092	—	579,322	64,797,414	

	At December 31, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss *(Note (iii))*	Total
Total loans and advances to customers measured at amortised cost	62,193,463	4,976,267	1,772,085	68,941,815
Less: Provision for impairment losses	(731,509)	(652,836)	(845,059)	(2,229,404)
Carrying amount of loans and advances to customers measured at amortised cost	61,461,954	4,323,431	927,026	66,712,411
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	6,604,093	—	—	6,604,093
Total carrying amount of loans and advances to customers	68,066,047	4,323,431	927,026	73,316,504

	At December 31, 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss *(Note (iii))*	Total
Total loans and advances to customers measured at amortised cost	77,231,320	6,826,776	2,145,837	86,203,933
Less: Provision for impairment losses	(915,219)	(849,422)	(988,716)	(2,753,357)
Carrying amount of loans and advances to customers measured at amortised cost	76,316,101	5,977,354	1,157,121	83,450,576
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	6,661,066	—	—	6,661,066
Total carrying amount of loans and advances to customers	82,977,167	5,977,354	1,157,121	90,111,642

	At March 31, 2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses *(Note (iii))*	Total
Total loans and advances to customers measured at amortised cost	85,464,401	7,434,113	2,390,440	95,288,954
Less: Provision for impairment losses	(985,601)	(944,744)	(1,063,536)	(2,993,881)
Carrying amount of loans and advances to customers measured at amortised cost	84,478,800	6,489,369	1,326,904	92,295,073
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	8,910,600	—	—	8,910,600
Total carrying amount of loans and advances to customers	93,389,400	6,489,369	1,326,904	101,205,673

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	At December 31, 2017				
		Impaired loans and advances *(Note (ii))*			
	Loans and advances for which provision are collectively assessed *(Note (i))*	For which provision are collectively assessed	For which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	65,540,258	—	978,361	66,518,619	1.47%
Less: Provision for impairment losses	(1,322,166)	—	(399,039)	(1,721,205)	
Net loans and advances to customers	64,218,092	—	579,322	64,797,414	

	At December 31, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss *(Note (iii))*	Total
Total loans and advances to customers measured at amortised cost	63,293,896	4,976,267	1,772,085	70,042,248
Less: Provision for impairment losses	(731,509)	(652,836)	(845,059)	(2,229,404)
Carrying amount of loans and advances to customers measured at amortised cost	62,562,387	4,323,431	927,026	67,812,844
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	6,604,093	—	—	6,604,093
Total carrying amount of loans and advances to customers	69,166,480	4,323,431	927,026	74,416,937

	At December 31, 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss *(Note (iii))*	Total
Total loans and advances to customers measured at amortised cost	78,455,554	6,826,776	2,145,837	87,428,167
Less: Provision for impairment losses	(915,219)	(849,422)	(988,716)	(2,753,357)
Carrying amount of loans and advances to customers measured at amortised cost	77,540,335	5,977,354	1,157,121	84,674,810
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	6,661,066	—	—	6,661,066
Total carrying amount of loans and advances to customers	84,201,401	5,977,354	1,157,121	91,335,876

	At March 31, 2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses *(Note (iii))*	Total
Total loans and advances to customers measured at amortised cost	86,821,764	7,434,113	2,390,440	96,646,317
Less: Provision for impairment losses	(985,601)	(944,744)	(1,063,536)	(2,993,881)
Carrying amount of loans and advances to customers measured at amortised cost	85,836,163	6,489,369	1,326,904	93,652,436
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	8,910,600	—	—	8,910,600
Total carrying amount of loans and advances to customers	94,746,763	6,489,369	1,326,904	102,563,036

Notes:

i. Loans and advances collectively assessed for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.

ii. Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the following methods:

— Individually (including corporate loans and advances which are graded substandard, doubtful or loss); or

— Collectively, representing portfolios of homogeneous loans (including personal loans which are graded substandard, doubtful or loss).

iii. The loans and advances are "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the loans and advances have occurred. Evidence that loans and advances are credit-impaired includes the following observable data: significant financial difficulty of the borrower or issuer; a breach of contract by the borrower, such as a default or delinquency in interest or principal payments; for economic or contractual reasons relating to the borrower's financial difficulty, the Group having granted to the borrower a concession that otherwise would not be considered; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or debts overdue more than 90 days.

iv. The definitions of the loan classifications, stated in Notes (i) and (ii) above, are set out in Note 41(a).

(f) Movements of provision for impairment losses

The Group and the Bank

	Year ended December 31, 2017			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		Which are collectively assessed	Which are individually assessed	Total
As at January 1	—	1,183,901	316,838	1,500,739
Charge for the year	—	120,485	211,067	331,552
Recoveries	—	17,780	—	17,780
Written offs	—	—	(128,866)	(128,866)
As at December 31	—	1,322,166	399,039	1,721,205

(i) For the years ended December 31, 2018 and 2019 and the three months ended March 31, 2020, movements of provision for impairment losses of loans and advances to customers measured at amortised cost:

	Year ended December 31, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	615,159	870,716	463,518	1,949,393
Transferred:				
— to expected credit losses over the next 12 months	9,136	(9,136)	—	—
— to lifetime expected credit losses: not credit-impaired loans	(5,269)	5,269	—	—
— to lifetime expected credit losses: credit-impaired loans	(7,974)	(41,848)	49,822	—
Charge/(reversal) for the year	120,457	(172,165)	1,274,524	1,222,816
Transfer out	—	—	(9,361)	(9,361)
Recoveries	—	—	5,281	5,281
Write-offs	—	—	(938,725)	(938,725)
As at December 31	731,509	652,836	845,059	2,229,404

	Year ended December 31, 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	731,509	652,836	845,059	2,229,404
Transferred:				
— to expected credit losses over the next 12 months	159	(26)	(133)	—
— to lifetime expected credit losses: not credit-impaired loans	(25,554)	49,959	(24,405)	—
— to lifetime expected credit losses: credit-impaired loans	(6,024)	(57,660)	63,684	—
Charge for the year	215,129	204,313	941,806	1,361,248
Recoveries	—	—	10,872	10,872
Write-offs	—	—	(848,167)	(848,167)
As at December 31	915,219	849,422	988,716	2,753,357

	Three months ended March 31, 2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	Total
As at January 1	915,219	849,422	988,716	2,753,357
Transferred:				
— to expected credit losses over the next 12 months	2,657	(2,657)	—	—
— to lifetime expected credit losses: not credit-impaired loans	(219,409)	219,467	(58)	—
— to lifetime expected credit losses: credit-impaired loans	(1,040)	(433,844)	434,884	—
Charge/(reversal) for the period	288,174	312,356	(73,084)	527,446
Recoveries	—	—	7,268	7,268
Write-offs	—	—	(294,190)	(294,190)
As at March 31	985,601	944,744	1,063,536	2,993,881

(ii) For the years ended December 31, 2018 and 2019 and the three months ended March 31, 2020, movements of provision for impairment losses of loans and advances to customers measured at fair value through other comprehensive income:

	Year ended December 31, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	4,581	—	—	4,581
Charge for the year	3,160	—	—	3,160
As at December 31	7,741	—	—	7,741

	Year ended December 31, 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	7,741	—	—	7,741
Reversal for the year	(115)	—	—	(115)
As at December 31	7,626	—	—	7,626

	Three months ended March 31, 2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	Total
As at January 1	7,626	—	—	7,626
Charge for the period	2,554	—	—	2,554
As at March 31	10,180	—	—	10,180

Provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of loans and advances to customers presented in the statements of financial position, and impairment loss or gain is recognised in the profit or loss.

(g) Disposal of loans and advances to customers

During the years ended December 31, 2017, 2018 and 2019 and three months ended March 31, 2020, the Group and the Bank transferred (i) loans and advances with principal amount of RMB506.2 million, RMB1,748.5 million, RMB2,219.0 million and RMB128.8 million, respectively; and (ii) relevant interests of RMB36.4 million, RMB106.6 million, RMB196.6 million and RMB15.0 million, respectively, to independent third parties and the transfer price was RMB387.2 million, RMB1,068.7 million, RMB1,661.0 million and RMB89.4 million, respectively.

19. FINANCIAL INVESTMENTS

The Group and the Bank

	Note	At December 31, 2017	At December 31, 2018	At December 31, 2019	At March 31, 2020
Financial investments measured at fair value through profit or loss	*(a)*	5,362,537	23,008,735	18,507,144	17,747,069
Financial investments measured at fair value through other comprehensive income	*(b)*	—	18,520,862	13,899,189	24,395,657
Financial investments measured at amortised cost	*(c)*	—	52,081,895	56,722,112	52,761,894
Available-for-sale financial assets	*(d)*	6,777,151	—	—	—
Held-to-maturity investments	*(e)*	41,167,293	—	—	—
Investments classified as receivables	*(f)*	38,007,908	—	—	—
Total		91,314,889	93,611,492	89,128,445	94,904,620

(a) Financial investments measured at fair value through profit or loss

The Group and the Bank

	At December 31, 2017	At December 31, 2018	At December 31, 2019	At March 31, 2020
Debt securities issued by the following institutions in mainland China				
— Government	29,246	374,392	133,957	84,607
— Policy banks	807,106	362,564	74,135	45,187
— Banks and other financial institutions	129,042	607,231	203,336	205,767
— Corporate	4,397,143	4,325,448	3,516,679	2,647,618
Sub-total	5,362,537	5,669,635	3,928,107	2,983,179
Unlisted	5,362,537	5,669,635	3,928,107	2,983,179
Asset-backed securities				
— Unlisted	—	—	—	425,023
Investment funds				
— Unlisted	—	769,732	699,876	710,125
Wealth management products				
— Unlisted	—	1,115,121	1,019,544	506,734
Investment management products				
— Unlisted	—	15,454,247	12,859,617	13,122,008
Total	5,362,537	23,008,735	18,507,144	17,747,069

Note: As at December 31, 2017, 2018 and 2019 and March 31, 2020, there were no investments subject to material restrictions in the realisation.

(b) Financial investments measured at fair value through other comprehensive income

The Group and the Bank

	At December 31,		At March 31,
	2018	2019	2020
Debt securities issued by the following institutions in mainland China			
— Government	1,626,324	1,391,957	1,325,153
— Policy banks	9,396,622	6,892,671	16,130,437
— Banks and other financial institutions	51,687	80,598	30,829
— Corporate	831,750	3,212,137	4,972,405
Sub-total	11,906,383	11,577,363	22,458,824
Interests accrued	313,083	277,659	520,291
— Unlisted	12,219,466	11,855,022	22,979,115
Interbank deposits			
— Unlisted	6,230,291	1,767,820	1,140,998
Asset backed securitisation	—	80,316	80,844
Interest accrued	—	445	1,042
— Unlisted	—	80,761	81,886
Equity investments			
— Unlisted	71,105	195,586	193,658
Total	18,520,862	13,899,189	24,395,657

Notes:

(i) As at December 31, 2018 and 2019 and March 31, 2020, there were no investments subject to material restrictions in the realisation.

(ii) For the years ended December 31, 2018 and 2019 and three months ended March 31, 2020, movements of provision for impairment losses of financial investments measured at fair value through other comprehensive income is as follows:

	Year ended December 31, 2018			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	374	—	—	374
Charge for the year	2,861	—	—	2,861
Balance at December 31	3,235	—	—	3,235

	Year ended December 31, 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	3,235	—	—	3,235
Charge for the year	1,346	—	—	1,346
Balance at December 31	4,581	—	—	4,581

	Three months ended March 31, 2020			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	4,581	—	—	4,581
Charge for the period	2,252	—	—	2,252
Balance at March 31	6,833	—	—	6,833

Provision for impairment losses on financial investments measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of financial investments presented in the statements of financial position, and impairment loss or gain is recognised in the profit or loss.

(c) Financial investments measured at amortised cost

The Group and the Bank

		At December 31,		At March 31,
	Note	2018	2019	2020
Debt securities issued by the following institutions in mainland China	*(i)*			
— Government		10,730,388	12,780,818	13,830,336
— Policy banks		16,927,198	17,789,065	10,751,794
— Banks and other financial institutions		399,999	230,000	220,000
— Corporate		5,415,071	7,168,773	10,598,157
Interests accrued		629,252	790,053	692,512
Sub-total		34,101,908	38,758,709	36,092,799
Interbank deposits		997,708	—	—
Investment management products		14,544,410	16,707,665	15,751,850
Interests accrued		61,237	211,542	248,393
— Unlisted		14,605,647	16,919,207	16,000,243
Asset backed securitization		2,544,187	1,342,915	1,030,796
Interests accrued		2,311	1,811	3,560
— Unlisted		2,546,498	1,344,726	1,034,356
Less: Provision for impairment losses	*(ii)*	(169,866)	(300,530)	(365,504)
Total		52,081,895	56,722,112	52,761,894

Notes:

(i) As at December 31, 2018 and 2019 and March 31, 2020, certain debt securities were pledged for repurchase agreements (Note 25(a)).

(ii) For the years ended December 31, 2018 and 2019 and the three months ended March 31, 2020, movements of provision for impairment losses of financial investments measured at amortised cost is as follows:

	Year ended December 31, 2018			
	Expected credit losses over the next 12 months	**Lifetime expected credit losses not credit-impaired**	**Lifetime expected credit losses credit-impaired**	**Total**
Balance at January 1	155,932	—	6,487	162,419
Charge for the year	4,983	2,763	—	7,746
Reversal for the year	—	—	(299)	(299)
Balance at December 31	160,915	2,763	6,188	169,866

	Year ended December 31, 2019			
	Expected credit losses over the next 12 months	**Lifetime expected credit losses not credit-impaired**	**Lifetime expected credit losses credit-impaired**	**Total**
Balance at January 1	160,915	2,763	6,188	169,866
Transfers:				
— to lifetime expected credit losses not credit-impaired	(579)	579	—	—
— to lifetime expected credit losses credit-impaired	—	(2,763)	2,763	—
Charge for the year	20,010	109,421	1,233	130,664
Balance at December 31	180,346	110,000	10,184	300,530

	Three months ended March 31, 2020			
	Expected credit losses over the next 12 months	**Lifetime expected credit losses not credit-impaired**	**Lifetime expected credit losses credit-impaired**	**Total**
Balance at January 1	180,346	110,000	10,184	300,530
Charge for the period	1,195	55,000	8,779	64,974
Balance at March 31	181,541	165,000	18,963	365,504

(d) Available-for-sale financial assets

The Group and the Bank

	At December 31, 2017
Debt securities issued by the following institutions in mainland China	
— Policy banks	3,084,188
— Corporate	403,396
Sub-total	3,487,584
Unlisted	3,487,584
Investment funds	
— Unlisted *(Note a)*	2,687,337
Investment management products	
— Unlisted *(Note a)*	511,138
Equity investments	
— Unlisted *(Note a)*	264,058
Less: Provision for impairment losses	(172,966)
Total	6,777,151

Notes:

(a) These investments are carried at cost less impairment because its fair value cannot be determined reliably.

(b) As at December 31, 2017, certain debt securities were pledged for repurchase agreements.

(e) Held-to-maturity investments

Analysed by type of investment and geographical location

The Group and the Bank

	At December 31, 2017
Debt securities issued by the following institutions in mainland China	
— Government	14,811,469
— Policy banks	20,831,348
— Banks and other financial institutions	978,070
— Corporate	3,006,278
Sub-total	39,627,165
Asset backed securitization	
— Unlisted	56,007
Interbank deposits	
— Unlisted	1,484,121
Total	41,167,293

Notes:

(i) As at December 31, 2017, certain debt securities were pledged for repurchase agreements and borrowing from central bank (Note 25(a)).

(ii) During the year ended December 31, 2017, the Group did not dispose of material held-to-maturity debt investments prior to their maturity dates.

(f) Investments classified as receivables

The Group and the Bank

	At December 31, 2017
Investment management products	
— Unlisted	38,202,414
Less: Provision for impairment losses	(194,506)
Net carrying amount	38,007,908

20. INVESTMENTS IN SUBSIDIARY

The Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	650,000	650,000	650,000	650,000

Shandong Tongda Financial Leasing Co., Ltd. ("Tongda") was incorporated on June 6, 2016 at Shandong Province, the PRC with registered capital of RMB1,000 million. The principal activities of Tongda are the provision of financial leasing services. As at December 31, 2019 and March 31, 2020, the Bank holds 65% and 59.1% of equity interest respectively.

On March 27, 2020, an independent third party made a capital injection of RMB132.3 million in Tongda. The Group recorded an increase in non-controlling interests of approximately RMB139.9 million and a decrease in capital reserve of approximately RMB7.6 million. As at March 31, 2020, the consideration of RMB132.3 million was fully settled.

21. PROPERTY AND EQUIPMENT

The Group

	Premises	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost					
As at January 1, 2017	556,483	183,763	344,120	16,451	1,100,817
Additions	27,304	17,736	23,143	851	69,034
Transfer to investment properties	(3,431)	—	—	—	(3,431)
Disposals	—	—	(5,975)	—	(5,975)
As at December 31, 2017	580,356	201,499	361,288	17,302	1,160,445
As at January 1, 2018	580,356	201,499	361,288	17,302	1,160,445
Additions	14,179	19,389	25,164	1,220	59,952
Disposals	—	—	(17,845)	(499)	(18,344)
As at December 31, 2018	594,535	220,888	368,607	18,023	1,202,053
As at January 1, 2019	594,535	220,888	368,607	18,023	1,202,053
Additions	615	17,728	32,326	—	50,669
Transfer from investment properties	14,833	—	—	—	14,833
As at December 31, 2019	609,983	238,616	400,933	18,023	1,267,555
As at January 1, 2020	609,983	238,616	400,933	18,023	1,267,555
Additions	—	8,542	615	—	9,157
Transfer to investment properties	(5,467)	—	—	—	(5,467)
Disposals	—	—	(2,851)	(250)	(3,101)
As at March 31, 2020	604,516	247,158	398,697	17,773	1,268,144
Accumulated depreciation					
As at January 1, 2017	64,765	68,133	190,998	10,516	334,412
Charge for the year	13,455	18,779	48,790	1,707	82,731
Transfer to investment properties	(1,989)	—	—	—	(1,989)
Disposal	—	—	(5,689)	—	(5,689)
As at December 31, 2017	76,231	86,912	234,099	12,223	409,465
As at January 1, 2018	76,231	86,912	234,099	12,223	409,465
Charge for the year	13,897	25,158	45,702	1,475	86,232
Disposals	—	—	(16,989)	(474)	(17,463)
As at December 31, 2018	90,128	112,070	262,812	13,224	478,234
As at January 1, 2019	90,128	112,070	262,812	13,224	478,234
Charge for the year	14,205	23,759	39,243	1,293	78,500
Transfer from investment properties	5,316	—	—	—	5,316
As at December 31, 2019	109,649	135,829	302,055	14,517	562,050
As at January 1, 2020	109,649	135,829	302,055	14,517	562,050
Charge for the period	3,564	6,493	8,359	221	18,637
Transfer to investment properties	(2,949)	—	—	—	(2,949)
Disposals	—	—	(2,711)	(237)	(2,948)
As at March 31, 2020	110,264	142,322	307,703	14,501	574,790
Net book value					
As at December 31, 2017	504,125	114,587	127,189	5,079	750,980
As at December 31, 2018	504,407	108,818	105,795	4,799	723,819
As at December 31, 2019	500,334	102,787	98,878	3,506	705,505
As at March 31, 2020	494,252	104,836	90,994	3,272	693,354

The Bank

	Premises	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost					
As at January 1, 2017	524,810	183,480	341,103	16,170	1,065,563
Additions	27,304	12,988	21,943	851	63,086
Transfer to investment properties	(3,431)	—	—	—	(3,431)
Disposals	—	—	(5,975)	—	(5,975)
As at December 31, 2017	548,683	196,468	357,071	17,021	1,119,243
As at January 1, 2018	548,683	196,468	357,071	17,021	1,119,243
Additions	14,179	19,389	25,002	1,220	59,790
Disposals	—	—	(17,845)	(499)	(18,344)
As at December 31, 2018	562,862	215,857	364,228	17,742	1,160,689
As at January 1, 2019	562,862	215,857	364,228	17,742	1,160,689
Additions	615	17,729	32,119	—	50,463
Transfer from investment properties	14,780	—	—	—	14,780
As at December 31, 2019	578,257	233,586	396,347	17,742	1,225,932
As at January 1, 2020	578,257	233,586	396,347	17,742	1,225,932
Additions	—	8,542	497	—	9,039
Transfer to investment properties	(5,467)	—	—	—	(5,467)
Disposals	—	—	(2,851)	(250)	(3,101)
As at March 31, 2020	572,790	242,128	393,993	17,492	1,226,403
Accumulated depreciation					
As at January 1, 2017	64,022	68,133	190,960	10,507	333,622
Charge for the year	12,702	18,188	48,160	1,668	80,718
Transfer to investment properties	(1,989)	—	—	—	(1,989)
Disposals	—	—	(5,689)	—	(5,689)
As at December 31, 2017	74,735	86,321	233,431	12,175	406,662
As at January 1, 2018	74,735	86,321	233,431	12,175	406,662
Charge for the year	13,086	24,667	44,891	1,437	84,081
Disposals	—	—	(16,989)	(474)	(17,463)
As at December 31, 2018	87,821	110,988	261,333	13,138	473,280
As at January 1, 2019	87,821	110,988	261,333	13,138	473,280
Charge for the year	13,441	23,269	38,407	1,255	76,372
Transfer from investment properties	5,316	—	—	—	5,316
As at December 31, 2019	106,578	134,257	299,740	14,393	554,968
As at January 1, 2020	106,578	134,257	299,740	14,393	554,968
Charge for the period	3,244	6,370	8,141	211	17,966
Transfer to investment properties	(2,949)	—	—	—	(2,949)
Disposals	—	—	(2,711)	(237)	(2,948)
As at March 31, 2020	106,873	140,627	305,170	14,367	567,037
Net book value					
As at December 31, 2017	473,948	110,147	123,640	4,846	712,581
As at December 31, 2018	475,041	104,869	102,895	4,604	687,409
As at December 31, 2019	471,679	99,329	96,607	3,349	670,964
As at March 31, 2020	465,917	101,501	88,823	3,125	659,366

The net book values of premises as at the end of each of the Track Record Period are analysed by the remaining terms of the leases as follows:

The Group

	At December 31,			At March 31,
	2017	2018	2019	2020
Held in mainland China				
— Medium-term leases (10-50 years)	474,718	475,812	472,551	466,672
— Long-term leases (over 50 years)	29,407	28,595	27,783	27,580
	504,125	504,407	500,334	494,252

The Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Held in mainland China				
— Medium-term leases (10-50 years)	444,541	446,446	443,896	438,337
— Long-term leases (over 50 years)	29,407	28,595	27,783	27,580
	473,948	475,041	471,679	465,917

22. RIGHT-OF-USE ASSETS

The Group

	Motor vehicles	Properties	Total
Net book value			
Balance at January 1, 2019 upon adoption of IFRS 16	284	462,353	462,637
Additions	324	126,195	126,519
Depreciation charge for the year	(284)	(112,021)	(112,305)
Balance at December 31, 2019	324	476,527	476,851
Balance at January 1, 2020	324	476,527	476,851
Additions	—	48,803	48,803
Depreciation charge for the period	(81)	(27,968)	(28,049)
Balance at March 31, 2020	243	497,362	497,605

The Bank

	Properties
Net book value	
Balance at January 1, 2019 upon adoption of IFRS 16	461,056
Additions	90,783
Depreciation charge for the year	(104,876)
Balance at December 31, 2019	446,963
Balance at January 1, 2020	446,963
Additions	48,803
Depreciation charge for the period	(26,149)
Balance at March 31, 2020	469,617

23. DEFERRED TAX

(a) Analysed by nature

The Group

	At December 31, 2017		At December 31, 2018		At December 31, 2019		At March 31, 2020	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets								
— Allowance for impairment losses. . . .	758,758	189,690	2,061,499	515,375	3,528,945	882,236	3,993,331	998,333
— Fair value changes of financial assets..	121,530	30,382	105,333	26,333	39,775	9,944	8,534	2,134
— Accrued staff costs. . .	185,979	46,495	200,957	50,239	249,051	62,263	250,392	62,598
— Others	—	—	—	—	13,232	3,308	20,716	5,179
	1,066,267	266,567	2,367,789	591,947	3,831,003	957,751	4,272,973	1,068,244
Deferred income tax liability								
— Fair value changes of financial assets	—	—	—	—	(20,673)	(5,168)	(281,960)	(70,490)
	—	—	—	—	(20,673)	(5,168)	(281,960)	(70,490)
Net balances	1,066,267	266,567	2,367,789	591,947	3,810,330	952,583	3,991,013	997,754

The Bank

	At December 31, 2017		At December 31, 2018		At December 31, 2019		At March 31, 2020	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets								
— Allowance for impairment losses. . . .	736,482	184,121	1,953,918	488,480	3,295,512	823,878	3,748,685	937,171
— Fair value changes of financial assets	121,530	30,382	105,333	26,333	39,775	9,944	8,534	2,134
— Accrued staff costs. . .	181,761	45,440	188,521	47,130	235,607	58,902	245,284	61,321
— Others	—	—	—	—	12,669	3,167	20,024	5,006
	1,039,773	259,943	2,247,772	561,943	3,583,563	895,891	4,022,527	1,005,632
Deferred income tax liability								
— Fair value changes of financial assets	—	—	—	—	(20,673)	(5,168)	(281,960)	(70,490)
	—	—	—	—	(20,673)	(5,168)	(281,960)	(70,490)
Net balances	1,039,773	259,943	2,247,772	561,943	3,562,890	890,723	3,740,567	935,142

(b) Movements of deferred tax

The Group

	Allowance for impairment losses	Accrued staff costs	Change in fair value	Others	Net balance of deferred tax assets
	Note(i)		*Note(ii)*		
As at January 1, 2017	159,122	58,887	804	—	218,813
Recognised in profit or loss	30,568	(12,392)	9,628	—	27,804
Recognised in other comprehensive income	—	—	19,950	—	19,950
As at December 31, 2017	189,690	46,495	30,382	—	266,567
Changes in accounting policies	28,144	—	49,978	—	78,122
As at January 1, 2018	217,834	46,495	80,360	—	344,689
Recognised in profit or loss	297,541	3,744	(12,016)	—	289,269
Recognised in other comprehensive income	—	—	(42,011)	—	(42,011)
As at December 31, 2018 and January 1, 2019	515,375	50,239	26,333	—	591,947
Recognised in profit or loss	366,861	12,024	(13,798)	3,308	368,395
Recognised in other comprehensive income	—	—	(7,759)	—	(7,759)
As at December 31, 2019 and January 1, 2020	882,236	62,263	4,776	3,308	952,583
Recognised in profit or loss	116,097	335	5,327	1,871	123,630
Recognised in other comprehensive income	—	—	(78,459)	—	(78,459)
As at March 31, 2020	998,333	62,598	(68,356)	5,179	997,754

The Bank

	Allowance for impairment losses	Accrued staff costs	Change in fair value	Others	Net balance of deferred tax assets
	Note(i)		*Note(ii)*		
As at January 1, 2017	157,444	58,325	804	—	216,573
Recognised in profit or loss	26,677	(12,885)	9,628	—	23,420
Recognised in other comprehensive income	—	—	19,950	—	19,950
As at December 31, 2017	184,121	45,440	30,382	—	259,943
Changes in accounting policies	28,144	—	49,978	—	78,122
As at January 1, 2018	212,265	45,440	80,360	—	338,065
Recognised in profit or loss	276,215	1,690	(12,016)	—	265,889
Recognised in other comprehensive income	—	—	(42,011)	—	(42,011)
As at December 31, 2018 and January 1, 2019	488,480	47,130	26,333	—	561,943
Recognised in profit or loss	335,398	11,772	(13,798)	3,167	336,539
Recognised in other comprehensive income	—	—	(7,759)	—	(7,759)
As at December 31, 2019 and January 1, 2020	823,878	58,902	4,776	3,167	890,723
Recognised in profit or loss	113,293	2,419	5,327	1,839	122,878
Recognised in other comprehensive income	—	—	(78,459)	—	(78,459)
As at March 31, 2020	937,171	61,321	(68,356)	5,006	935,142

Notes:

(i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the Track Record Period. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the Track Record Period, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.

(ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realised.

24. OTHER ASSETS

The Group

		At December 31,			At March 31,
	Note	**2017**	**2018**	**2019**	**2020**
Interests receivables	*(a)*	1,546,841	110,329	205,762	205,915
Prepaid expenses		127,683	139,418	276,431	226,779
Intangible assets	*(b)*	42,810	37,447	40,313	36,510
Long-term deferred expenses		1,768	2,802	5,310	5,071
Repossessed assets	*(c)*	110,961	106,795	70,165	70,165
Land use rights	*(d)*	11,762	11,627	11,222	11,154
Investment properties	*(e)*	92,467	89,267	76,596	78,336
Finance lease receivables	*(f)*	8,910,376	12,181,176	13,545,630	15,503,198
Others		112,472	270,530	314,064	345,888
Subtotal		10,957,140	12,949,391	14,545,493	16,483,016
Less: Provision for impairment loss		(128,508)	(255,124)	(414,677)	(451,348)
Total		10,828,632	12,694,267	14,130,816	16,031,668

The Bank

		At December 31,			At March 31,
	Note	**2017**	**2018**	**2019**	**2020**
Interests receivables	*(a)*	1,507,726	110,329	205,762	205,915
Prepaid expenses		127,683	139,418	276,431	226,779
Intangible assets	*(b)*	40,409	35,573	38,864	35,245
Long-term deferred expenses		1,768	2,802	5,311	5,071
Repossessed assets	*(c)*	110,961	106,795	70,165	70,165
Land use rights	*(d)*	11,762	11,627	11,222	11,154
Investment properties	*(e)*	122,643	118,632	105,250	106,671
Others		95,960	93,712	131,359	328,030
Subtotal		2,018,912	618,888	844,364	989,030
Less: Provision for impairment loss		(17,128)	(25,293)	(46,280)	(53,328)
Total		2,001,784	593,595	798,084	935,702

(a) Interests receivables

The Group

	At December 31,			At March 31,
	2017	2018	2019	2020
Interests receivables arising from:				
Financial investments	1,207,028	71,067	132,299	141,374
Loans and advances to customers	257,675	39,262	73,463	64,541
Others	82,138	—	—	—
Sub-total	1,546,841	110,329	205,762	205,915
Less: Provision for impairment losses	—	(8,015)	(25,524)	(32,153)
Total	1,546,841	102,314	180,238	173,762

The Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Interests receivables arising from:				
Financial investments	1,207,028	71,067	132,299	141,374
Loans and advances to customers	257,675	39,262	73,463	64,541
Others	43,023	—	—	—
Sub-total	1,507,726	110,329	205,762	205,915
Less: Provision for impairment losses	—	(8,015)	(25,524)	(32,153)
Total	1,507,726	102,314	180,238	173,762

As at December 31, 2018 and 2019 and March 31, 2020, interests receivables only include interests that have been due for the relevant financial instruments but not yet received at the balance sheet date. Interests on financial instruments based on the effective interest method have been reflected in the balance of corresponding financial instruments.

(b) Intangible assets

The Group

	Computer software and system development
Cost	
As at January 1, 2017	94,831
Additions	12,204
As at December 31, 2017	107,035
Additions	12,905
As at December 31, 2018	119,940
Additions	22,923
As at December 31, 2019	142,863
Additions	302
As at March 31, 2020	143,165

	Computer software and system development
Accumulated amortisation	
As at January 1, 2017	46,432
Charge for the year	17,793
As at December 31, 2017	64,225
Charge for the year	18,268
As at December 31, 2018	82,493
Charge for the year	20,057
As at December 31, 2019	102,550
Charge for the period	4,105
As at March 31, 2020	106,655
Net book value	
As at December 31, 2017	42,810
As at December 31, 2018	37,447
As at December 31, 2019	40,313
As at March 31, 2020	36,510

The Bank

	Computer software and system development
Cost	
As at January 1, 2017	91,836
Additions	12,147
As at December 31, 2017	103,983
Additions	12,814
As at December 31, 2018	116,797
Additions	22,392
As at December 31, 2019	139,189
Additions	302
As at March 31, 2020	139,491
Accumulated amortisation	
As at January 1, 2017	46,406
Charge for the year	17,168
As at December 31, 2017	63,574
Charge for the year	17,650
As at December 31, 2018	81,224
Charge for the year	19,101
As at December 31, 2019	100,325
Charge for the period	3,921
As at March 31, 2020	104,246
Net book value	
As at December 31, 2017	40,409
As at December 31, 2018	35,573
As at December 31, 2019	38,864
As at March 31, 2020	35,245

(c) Repossessed assets

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Land use right and buildings	110,961	106,795	70,165	70,165
Less: impairment allowances	(11,448)	(11,448)	(14,897)	(14,897)
Net balances	99,513	95,347	55,268	55,268

(d) Land use right

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Located in mainland China:				
10-50 years	11,762	11,627	11,222	11,154

(e) Investment properties

The Group

	Investment properties
Cost	
As at January 1, 2017	132,941
Transfer from property and equipment	3,431
As at December 31, 2017 and 2018	136,372
Transfer to property and equipment	(14,833)
As at December 31, 2019	121,539
Transfer from property and equipment	5,467
As at March 31, 2020	127,006
Accumulated depreciation and impairment	
As at January 1, 2017	38,856
Transfer from property and equipment	1,989
Charge for the year	3,060
As at December 31, 2017	43,905
Charge for the year	3,200
As at December 31, 2018	47,105
Charge for the year	3,154
Transfer to property and equipment	(5,316)
As at December 31, 2019	44,943
Charge for the period	778
Transfer from property and equipment	2,949
As at March 31, 2020	48,670
Impairment loss	
As at December 31, 2017, 2018 and 2019 and March 31, 2020	5,680
Net book value	
As at December 31, 2017	86,787
As at December 31, 2018	83,587
As at December 31, 2019	70,916
As at March 31, 2020	72,656

The Bank

	Investment properties
Cost	
As at January 1, 2017	164,615
Transfer from property and equipment	3,431
As at December 31, 2017 and 2018	168,046
Transfer to property and equipment	(14,780)
As at December 31, 2019	153,266
Transfer from property and equipment	5,467
As at March 31, 2020	158,733
Accumulated depreciation and impairment	
As at January 1, 2017	39,601
Charge for the year	3,813
Transfer from property and equipment	1,989
As at December 31, 2017	45,403
Charge for the year	4,011
As at December 31, 2018	49,414
Charge for the year	3,918
Transfer to property and equipment	(5,316)
As at December 31, 2019	48,016
Charge for the period	1,097
Transfer from property and equipment	2,949
As at March 31, 2020	52,062
Impairment loss	
As at December 31, 2017, 2018 and 2019 and March 31, 2020	5,680
Net book value	
As at December 31, 2017	116,963
As at December 31, 2018	112,952
As at December 31, 2019	99,570
As at March 31, 2020	100,991

(f) Finance lease receivables

At the end of each of Track Record Period, the total future minimum lease receivables under finance leases and their present values were as follows:

The Group

	At December 31,			At March 31,
	2017	2018	2019	2020
Total minimum finance lease receivables				
Within 1 year (inclusive)	2,946,847	5,245,610	5,963,200	6,447,432
1 year to 5 years	7,050,585	8,090,549	8,899,054	10,514,818
Over 5 years	60,317	241,186	188,900	193,685
Gross amount of finance lease receivables	10,057,749	13,577,345	15,051,154	17,155,935
Less: Unearned finance income	(1,077,182)	(1,361,878)	(1,468,755)	(1,611,164)
Less: Unrealised VAT	(70,191)	(143,348)	(204,965)	(229,399)
Net amount of finance lease receivables	8,910,376	12,072,119	13,377,434	15,315,372
Interests accrued	—	109,057	168,196	187,826
Less: Provision for impairment loss	(111,380)	(226,956)	(365,402)	(397,448)
Carrying amount of finance lease receivables	8,798,996	11,954,220	13,180,228	15,105,750

	At December 31,			At March 31,
	2017	2018	2019	2020
Present value of minimum lease receivables				
Within 1 year (inclusive)	2,578,041	4,084,687	4,974,416	5,434,752
1 year to 5 years	6,168,186	7,651,538	8,035,569	9,496,007
Over 5 years	52,769	217,995	170,243	174,991
Total	8,798,996	11,954,220	13,180,228	15,105,750

25. PLEDGED ASSETS

(a) Assets pledged as collateral

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
For borrowing from the central bank				
— Financial investments measured at amortised costs	1,744,873	590,030	4,572,022	4,261,955
— Loans and advances	2,982,260	—	822,510	1,206,217
For repurchase agreements:				
— Financial investments measured at amortised costs	23,355,339	4,565,539	8,838,200	4,948,771
— Discounted bills	—	1,327,387	1,763,452	1,275,343
Total	28,082,472	6,482,956	15,996,184	11,692,286

Financial assets pledged by the Group as collateral for liabilities are mainly debt securities for repurchase agreements.

(b) Pledged assets received

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. See Note 17 for the Group's balance of the financial assets held under resale agreements. The fair value of such collateral accepted by the Group was RMB15,324 million, RMB1,449 million, RMB5,670 million and Nil as at December 31, 2017, 2018 and 2019 and March 31, 2020 respectively. These transactions were conducted under standard terms in the normal course of business.

26. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

The Group

	At December 31,			At March 31,
	2017	2018	2019	2020
Deposits in mainland China				
— Banks	2,632,978	7,373,220	4,984,761	4,819,588
Sub-total	2,632,978	7,373,220	4,984,761	4,819,588
Interests accrued	—	57,784	17,364	44,674
Total	2,632,978	7,431,004	5,002,125	4,864,262

The Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Deposits in mainland China				
— Banks	2,632,978	7,774,275	4,984,761	4,819,588
Sub-total	2,632,978	7,774,275	4,984,761	4,819,588
Interests accrued	—	57,784	17,364	44,674
Total	2,632,978	7,832,059	5,002,125	4,864,262

27. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

The Group

	At December 31,			At March 31,
	2017	2018	2019	2020
Placements in mainland China				
— Banks	6,686,000	10,351,070	9,938,810	11,246,892
— Other financial institutions	—	—	350,000	550,000
Sub-total	6,686,000	10,351,070	10,288,810	11,796,892
Interests accrued	—	110,428	140,675	211,973
Total	6,686,000	10,461,498	10,429,485	12,008,865

The Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Placements in mainland China				
— Banks	—	971,580	348,810	354,255
Interests accrued	—	528	2,690	5,270
Total	—	972,108	351,500	359,525

28. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
In mainland China				
— Banks	16,664,350	5,757,654	9,444,099	4,502,950
— Other financial institutions	5,355,800	—	500,000	1,291,697
Sub-total	22,020,150	5,757,654	9,944,099	5,794,647
Interests accrued	—	4,899	1,210	199
Total	22,020,150	5,762,553	9,945,309	5,794,846

(b) Analysed by type of collateral held

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Debt securities	22,020,150	4,432,410	8,192,480	4,502,950
Bank acceptance	—	1,325,244	1,751,619	1,291,697
Sub-total	22,020,150	5,757,654	9,944,099	5,794,647
Interests accrued	—	4,899	1,210	199
Total	22,020,150	5,762,553	9,945,309	5,794,846

29. DEPOSITS FROM CUSTOMERS

The Group

	At December 31,			At March 31,
	2017	2018	2019	2020
Demand deposits				
— Corporate customers	43,864,878	38,738,561	40,815,075	44,824,604
— Individual customers	6,081,600	7,041,184	7,808,426	7,577,273
Sub-total	49,946,478	45,779,745	48,623,501	52,401,877
Time deposits				
— Corporate customers	37,154,514	32,258,588	43,624,853	47,454,148
— Individual customers	32,790,807	37,642,449	49,891,487	54,934,773
Sub-total	69,945,321	69,901,037	93,516,340	102,388,921
Inward and outward remittances	204,210	103,714	61,562	83,808
Interests accrued	—	1,685,236	2,032,570	1,760,460
Total	120,096,009	117,469,732	144,233,973	156,635,066

The Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Demand deposits				
— Corporate customers	44,894,227	38,738,561	41,108,391	45,174,143
— Individual customers	6,081,600	7,041,184	7,808,426	7,577,273
Sub-total	50,975,827	45,779,745	48,916,817	52,751,416
Time deposits				
— Corporate customers	37,154,514	32,258,588	43,624,853	47,454,148
— Individual customers	32,790,807	37,642,449	49,891,487	54,934,773
Sub-total	69,945,321	69,901,037	93,516,340	102,388,921
Inward and outward remittances	204,210	103,714	61,562	83,808
Interests accrued	—	1,685,669	2,032,743	1,760,658
Total	121,125,358	117,470,165	144,527,462	156,984,803

30. LEASE LIABILITIES

(a) Leases

IFRS 16 was adopted January 1, 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at January 1, 2019, please refer to note 2(1)(a). The accounting policies applied subsequent to the date of initial application, January 1, 2019, as disclosed in note 2(14).

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of properties in the PRC. Property leases comprise only fixed payments over the lease terms.

The Group also leases certain items of properties and equipment. Leases of vehicles comprise only fixed payments over the lease terms.

Right-of-use Assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

The Group

	At January 1, 2019	At December 31, 2019	At March 31, 2020
Other properties leased for own use, carried at depreciated cost	462,353	476,527	497,362
Motor vehicles, carried at depreciated cost	284	324	243

The Bank

	At January 1, 2019	At December 31, 2019	At March 31, 2020
Other properties leased for own use, carried at depreciated cost	461,056	446,963	469,617

Lease Liabilities

The Group

Year ended December 31, 2019	Properties	Motor vehicles
Additions	126,195	324
Interest expense	22,895	12
Lease payments	(128,159)	(339)
Three months ended March 31, 2020		
Additions	38,102	—
Interest expense	5,522	2
Lease payments	(39,183)	—

The Bank

Year ended December 31, 2019	Properties
Additions	90,782
Interest expense	21,633
Lease payments	(120,042)
Three months ended March 31, 2020	
Additions	38,102
Interest expense	5,182
Lease payments	(37,235)

Future lease payments due are as follows:

The Group

	Minimum lease payments	Interest	Present value
	At January 1, 2019	At January 1, 2019	At January 1, 2019
Within 1 year	109,531	(18,609)	90,922
1 year to 2 years	90,877	(14,815)	76,062
2 years to 5 years	210,905	(24,241)	186,664
More than 5 years	82,362	(8,256)	74,106
	493,675	(65,921)	427,754

	Minimum lease payments	Interest	Present value
	At December 31, 2019	At December 31, 2019	At December 31, 2019
Within 1 year	111,143	(19,711)	91,432
1 year to 2 years	102,711	(15,372)	87,339
2 years to 5 years	207,746	(24,154)	183,592
More than 5 years	94,400	(8,081)	86,319
	516,000	(67,318)	448,682

	Minimum lease payments	Interests	Present value
	At March 31, 2020	At March 31, 2020	At March 31, 2020
Within 1 year	119,568	(19,702)	99,866
1 year to 2 years	116,439	(14,898)	101,541
2 years to 5 years	196,567	(22,385)	174,182
More than 5 years	84,399	(6,863)	77,536
	516,973	(63,848)	453,125

The Bank

	Minimum lease payments	Interest	Present value
	At January 1, 2019	At January 1, 2019	At January 1, 2019
Within 1 year	108,067	(18,601)	89,466
1 year to 2 years	90,877	(14,815)	76,062
2 years to 5 years	210,905	(24,241)	186,664
More than 5 years	82,362	(8,256)	74,106
	492,211	(65,913)	426,298

	Minimum lease payments	Interest	Present value
	At December 31, 2019	At December 31, 2019	At December 31, 2019
Within 1 year	102,852	(18,466)	84,386
1 year to 2 years	94,917	(14,461)	80,456
2 years to 5 years	190,858	(23,348)	167,510
More than 5 years	94,400	(8,081)	86,319
	483,027	(64,356)	418,671

	Minimum lease payments	Interests	Present value
	At March 31, 2020	At March 31, 2020	At March 31, 2020
Within 1 year	111,276	(18,541)	92,735
1 year to 2 years	108,645	(14,069)	94,576
2 years to 5 years	181,628	(21,755)	159,873
More than 5 years	84,399	(6,863)	77,536
	485,948	(61,228)	424,720

Note: The Group has initially applied IFRS 16 using the cumulative effect approach and adjusted the opening balances at January 1, 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. The Group did not have any liabilities previously classified as finance leases. Comparative information as at December 31, 2018 has not been restated. See Note 2(1)(a) for further details about transition.

During the year ended December 31, 2019 and the three months ended March 31, 2019 and 2020, lease payments related to short term leases was amounted to RMB4 million, RMB3 million (unaudited) and RMB2 million, respectively.

During the years ended December 31, 2017 and 2018, minimum lease payments amounted to RMB114 million and RMB117 million respectively.

Operating lease commitments for years ended December 31, 2017 and 2018 are disclosed in note 44(c).

31. DEBT SECURITIES ISSUED

The Group and the Bank

	Note	At December 31,			At March 31,
		2017	2018	2019	2020
Interbank deposits issued	*(a)*	25,423,240	32,678,879	22,459,809	21,670,500
Tier-two capital debts issued	*(b)*	4,992,140	4,993,095	4,993,960	4,994,176
Financial bonds issued	*(c)*	2,997,400	4,994,909	1,997,706	1,998,209
Sub-total		33,412,780	42,666,883	29,451,475	28,662,885
Interests accrued		—	275,631	173,307	155,367
Total		33,412,780	42,942,514	29,624,782	28,818,252

Notes:

(a) Interbank deposit issued

i. In 2017, the Bank issued a number of certificates of interbank deposit with total nominal amount RMB73,530 million and duration between 1 to 12 months. The coupon interest rates ranged from 3.65% to 5.55% per annum.

ii. In 2018, the Bank issued a number of certificates of interbank deposit with total nominal amount RMB59,640 million and duration between 1 to 12 months. The coupon interest rates ranged from 2.92% to 5.10% per annum.

iii. In 2019, the Bank issued a number of certificates of interbank deposit with total nominal amount RMB65,540 million and duration between 1 to 12 months. The coupon interest rates ranged from 2.50% to 3.70% per annum.

iv. For the three months ended March 31, 2020, the Bank issued a number of certificates of interbank deposit with total nominal amount RMB5,610 million and duration between 3 to 12 months. The coupon interest rates ranged from 2.60% to 3.20% per annum.

v. As at December 31, 2017, 2018 and 2019 and March 31, 2020, the fair value of interbank deposits issued was RMB25,412 million, RMB32,726 million, RMB22,478 million and RMB21,751 million, respectively.

(b) Tier-two capital debts issued

i. The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB3,000 million on September 24, 2015. The coupon interest rate per annum is 5.20%.

ii. The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB2,000 million on July 11, 2017. The coupon interest rate per annum is 5.00%.

iii. As at December 31, 2017, 2018 and 2019 and March 31, 2020, the fair value of the tier-two capital debts issued was RMB4,787 million, RMB5,027 million, RMB5,057 million and RMB5,079 million, respectively.

(c) Financial bonds issued

i. On February 17, 2014, the Bank issued 5-year financial bonds with face value of RMB500 million. The coupon interest rate per annum is 6.00%.

ii. On June 23, 2014, the Bank issued 5-year financial bonds with face value of RMB2,500 million. The coupon interest rate per annum is 5.80%.

iii. On March 21, 2018, the Bank issued 3-year financial bonds with face value of RMB2,000 million. The coupon interest rate per annum is 5.43%.

iv. As at December 31, 2017, 2018 and 2019 and March 31, 2020, the fair value of financial bonds issued was RMB3,011 million, RMB5,082 million, RMB2,047 million and RMB2,053 million, respectively.

32. OTHER LIABILITIES

The Group

	Note	At December 31, 2017	At December 31, 2018	At December 31, 2019	At March 31, 2020
Interests payable	(a)	2,156,535	12,502	10,924	26,351
Agency business liabilities		561,916	71,453	56,689	61,635
Accrued staff cost	(b)	232,285	262,942	373,385	372,088
Dividend payable		8,441	1,368	14,910	459,838
Output VAT payable		16,752	24,802	30,959	40,364
Receipt in advance		128,769	—	—	—
Contract liabilities	(c)	—	125,820	172,507	187,158
Provisions	(d)	—	55,843	61,259	65,431
Deposits received		474,406	532,459	442,491	424,515
Others	(e)	1,748,296	347,560	749,407	1,077,972
Total		5,327,400	1,434,749	1,912,531	2,715,352

The Bank

	Note	At December 31, 2017	At December 31, 2018	At December 31, 2019	At March 31, 2020
Interests payable	(a)	2,081,163	12,502	10,924	26,351
Agency business liabilities		561,916	71,453	56,688	61,635
Accrued staff cost	(b)	216,705	243,406	352,949	361,175
Dividend payable		8,441	1,368	14,910	424,838
Output VAT payable		16,752	24,803	30,959	40,364
Provisions	(d)	—	55,843	61,259	65,431
Others	(e)	1,747,982	347,227	507,848	859,737
Total		4,632,959	756,602	1,035,537	1,839,531

(a) Interests payable

The Group

	At December 31, 2017	At December 31, 2018	At December 31, 2019	At March 31, 2020
Interests payable arising from:				
Deposits from customers	1,860,255	12,502	10,924	26,351
Deposits from banks and other financial institutions	4,646	—	—	—
Borrowings from central bank	2,645	—	—	—
Debt securities issued	190,560	—	—	—
Financial assets sold under repurchase agreements	22,196	—	—	—
Placements from banks and other financial institutions	76,233	—	—	—
Total	2,156,535	12,502	10,924	26,351

The Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Interests payable arising from:				
Deposits from customers	1,861,116	12,502	10,924	26,351
Deposits from banks and other financial institutions	4,646	—	—	—
Borrowings from central bank	2,645	—	—	—
Debt securities issued	190,560	—	—	—
Financial assets sold under repurchase agreements	22,196	—	—	—
Total	2,081,163	12,502	10,924	26,351

As at December 31, 2018 and 2019 and March 31, 2020, interests on financial instruments based on the effective interest method have been reflected in the balance of corresponding financial instruments.

(b) Accrued staff cost

The Group

	At December 31,			At March 31,
	2017	2018	2019	2020
Salary, bonuses and allowances payable	198,361	225,565	329,208	320,006
Pension and annuity payable	1,626	1,626	1,626	1,626
Housing fund payable	1,575	—	—	—
Other social insurance payable	—	—	25	3,429
Others	30,723	35,751	42,526	47,027
Total	232,285	262,942	373,385	372,088

The Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Salary, bonuses and allowances payable	185,242	209,355	312,644	313,053
Housing fund payable	1,575	—	—	—
Other social insurance payable	—	—	—	3,381
Others	29,888	34,051	40,305	44,741
Total	216,705	243,406	352,949	361,175

(c) Contract liabilities

As at December 31, 2018 and 2019 and March 31, 2020, the aggregated amounts of the transaction price allocated to the remaining performance obligations under the Group's existing contracts are RMB126 million, RMB173 million and RMB187 million respectively. Such amounts represent income expected to be recognised in the future from finance lease services. The Group will recognise the expected income in future as the services are provided.

(d) Provisions

	Note	At December 31, 2018	At December 31, 2019	At March 31, 2020
Provisions for credit commitments	*(i)*	55,843	61,259	65,431

i. During year ended December 31, 2018, movements of provisions for credit commitments is as follows:

	Year ended December 31, 2018			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	64,778	—	—	64,778
Reversed for the year	(8,935)	—	—	(8,935)
Balance at December 31	55,843	—	—	55,843

During year ended December 31, 2019, movements of provisions for credit commitments is as follows:

	Year ended December 31, 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	55,843	—	—	55,843
Charge for the year	5,416	—	—	5,416
Balance at December 31	61,259	—	—	61,259

During three months ended March 31, 2020, movements of provisions for credit commitments is as follows:

	Three months ended March 31, 2020			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	61,259	—	—	61,259
Charge for the period	4,172	—	—	4,172
Balance at March 31	65,431	—	—	65,431

(e) Others

As at December 31, 2017, others mainly included payable for precious metal amounted to RMB1,416 million.

33. SHARE CAPITAL

Authorised and issued share capital

	Note	At December 31,			At March 31,
		2017	2018	2019	2020
Number of shares authorised, issued and fully paid at par value of RMB1 each.	(a)				
At beginning of year/period		4,171,197	4,171,197	4,971,197	4,971,197
Issued during the year/period		—	800,000	—	—
At end of year/period		4,171,197	4,971,197	4,971,197	4,971,197

(a) On August 28, 2018, the Bank passed a resolution in the first Extraordinary General Meeting in 2018 to have a placement of 800 million ordinary shares with par value of RMB1 per share based on the total number of 4,171,197,344 shares as at December 31, 2017. After the completion of placing, the registered capital of the Bank increased to RMB4,971,197,344. On December 24, 2018, Shandong Yinghua Certified Public Accountants Co., Ltd. (山東英華會計師事務所有限公司) issued (2018) Yinghua Yanzi No. 022 capital verification report ((2018)英華驗字第022號驗資報告) to verify the capital injection. On December 27, 2018, Shandong Banking and Insurance Supervision Bureau approved the change of registered capital of the Bank Luyin Baojianzhun [2018] No. 84.

(b) On December 29, 2018, Weihai Gongtian Real Estate Development Co., Ltd. (威海市工田房地產開發有限公司) ("Weihai Gongtian") and Beijing Qinian Investment Co., Ltd. (北京祈年投資有限公司) ("Beijing Qinian")entered into a share transfer agreement upon which Weihai Gongtian transferred 8,309,715 shares of the Bank to Beijing Qinian with the consideration RMB16,500,000;

On December 26, 2018, Weihai Chemical Import and Export Co., Ltd.(威海市化工進出口有限公司) ("Weihai Chemical") and Shandong Parkson Land Real Estate Assets Evaluation and Mapping Co., Ltd. (山東百盛土地房地產資產評估測繪有限公司) ("Shandong Parkson") entered into a share transfer agreement upon which Weihai Chemical transferred 2,824,624 shares of the Bank to Shandong Parkson with consideration RMB8,400,000;

In April 2019, Wendeng City Senlu Leather Co., Ltd. (文登市森鹿製革有限公司) ("Wendeng Senlu") and Weihai Liyu Industrial Co., Ltd. (威海市力鈺實業有限公司) ("Weihai Liyu") entered into a share transfer agreement upon which Wendeng Senlu transferred 43,627,931 shares of the Bank to Weihai Liyu with consideration RMB122,158,207. The share transfer was registered in Qilu Equity Exchange (齊魯股權交易所) on April 11, 2019;

In December 2019, Weihai Xinghai Trading Co., Ltd. (威海市興海貿易有限公司) ("Weihai Xinghai") and Shandong Huaxia Group Co., Ltd. (山東華夏集團有限公司) ("Shandong Huaxia") entered into a share transfer agreement upon which Weihai Xinghai transferred 30,000,000 shares of the Bank to Shandong Huaxia with consideration RMB90,000,000. The share transfer was registered in Qilu Equity Exchange on December 20, 2019;

In December 2019, Weihai Xinghai and Weihai Tianan Real Estate Development Co., Ltd. (威海天安房地產開發有限公司) ("Weihai Tianan") entered into a share transfer agreement upon which Weihai Xinghai transferred 27,593,500 shares of the Bank to Weihai Tianan with consideration RMB81,400,825. The share transfer was registered in Qilu Equity Exchange on December 20, 2019.

In December 2019, China Heavy Truck Group Co., Limited (中國重型汽車集團有限公司) ("China Heavy Truck") and Qilu Transportation Development Group Co., Ltd (齊魯交通發展集團有限公司) ("Qilu Transportation") entered into a share transfer agreement upon which China Heavy Truck transferred 566,144,163 shares of the Bank to Qilu Transportation with consideration RMB1,257,284,382. The share transfer was registered in Qilu Equity Exchange (齊魯股權交易所) on February 13, 2020.

In March 2020, Weihai Foreign Exchange Business Training Center (威海外匯業務培訓中心) ("Weihai Foreign Exchange") and Shandong Bodelong Group Co., Ltd. (山東波德隆集團有限公司) ("Shandong Bodelong") entered into a share transfer agreement upon which Weihai Foreign Exchange transferred 5,298,517 shares of the Bank to Shandong Bodelong with consideration RMB15,895,551. The share transfer was registered in Qilu Equity Exchange (齊魯股權交易所) on March 6, 2020.

34. RESERVES

(a) Capital reserve

	At December 31,			At March 31,
	2017	2018	2019	2020
Share premium	1,658,168	3,098,168	3,098,168	3,098,168
Other capital reserve	21,796	21,796	21,796	14,154
Total	1,679,964	3,119,964	3,119,964	3,112,322

(b) Surplus reserve

The surplus reserve at the end of each of the Track Record Period represented statutory surplus reserve and discretionary surplus reserve.

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP) after making good prior year's accumulated loss, to statutory surplus reserve until the balance reaches 50% of its registered capital.

The Bank appropriated an amount of RMB150 million, RMB86 million, RMB136 million and Nil to the surplus reserve for the years ended December 31, 2017, 2018 and 2019 and three months ended March 31, 2020, respectively.

The Bank may also appropriate discretionary surplus reserve in accordance with the resolution of the shareholders.

(c) General reserve

Pursuant to the Administrative Measures for the Provisioning for Reserves of Financial Enterprises (Cai Jin [2012] No. 20) issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The balance of the general reserve of the Bank amounted to RMB1,567 million, RMB1,668 million, RMB1,955 million and RMB2,157 million as at December 31, 2017, 2018 and 2019 and March 31, 2020, respectively.

(d) Fair value reserve

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
As at January 1	5,520	(54,329)	(53,108)	(29,831)
Changes in accounting policy	—	(124,814)	—	—
Changes in fair value recognised in other comprehensive income	(79,799)	168,046	31,036	313,837
Less: deferred tax	19,950	(42,011)	(7,759)	(78,459)
As at December 31/March 31	(54,329)	(53,108)	(29,831)	205,547

(e) Impairment reserve

The Group and the Bank

	At December 31,		At March 31,
	2018	2019	2020
As at January 1	3,717	8,233	9,155
Impairment losses recognised in other comprehensive income	6,021	1,230	4,807
Less: deferred tax	(1,505)	(308)	(1,202)
As at December 31/March 31	8,233	9,155	12,760

(f) Other equity instrument

On November 28, 2019, the Group issued a perpetual debt of RMB3,000.0 million with no fixed maturity date, resulting in credits to perpetual bonds of RMB2,999.7 million, after deducting the direct issuance cost of RMB0.3 million. In addition, the payment of dividend can be indefinitely deferred at the Group's option.

Therefore, the perpetual bond is classified as an equity instrument due to it does not include any contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

35. RETAINED EARNINGS

(a) Appropriation of profits

In accordance with the resolution at the Bank's Annual General Meeting held on April 16, 2018, the shareholders approved the following profit appropriations for the year ended December 31, 2017:

— Appropriation of statutory surplus reserve based on 10% of the net profit;

— Pursuant to the Administrative Measures for the Provisioning for Reserves of Financial Enterprises (Cai Jin [2012] No. 20), appropriation of general reserve amounted to approximately RMB101.0 million; and

— Declaration of cash dividend in an aggregation amount of approximately RMB417 million to all existing shareholders.

In accordance with the resolution at the Bank's Annual General Meeting on April 26, 2019, the shareholders approved the following profit appropriations for the year ended December 31, 2018:

— Appropriation of statutory surplus reserve based on 10% of the net profit;

— Pursuant to the Administrative Measures for the Provisioning for Reserves of Financial Enterprises (Cai Jin [2012] No. 20), appropriation of general reserve amounted to approximately RMB286.8 million; and

— Declaration of cash dividend in an aggregation amount of approximately RMB418 million to all existing shareholders.

In accordance with the resolution at the Bank's Board of Directors Meeting on February 29, 2020, the proposed profit distribution plan for the year ended December 31, 2019 is as follows:

— Appropriation of statutory surplus reserve based on 10% of the net profit;

— Pursuant to the Administrative Measures for the Provisioning for Reserves of Financial Enterprises (Cai Jin [2012] No. 20), appropriation of general reserve amounted to approximately RMB201.6 million; and

— Declaration of cash dividend in an aggregation amount of approximately RMB497 million to all existing shareholders.

As at December 31, 2017, 2018 and 2019 and March 31, 2019 and 2020, no appropriation of surplus reserve made by subsidiary of the Bank was included in the consolidated retained earnings attributable to equity shareholders of the Bank.

(b) Movements in components of equity

Details of the changes in the Bank's individual components of equity for the Track Record Period are set out below:

	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Retained earnings	Total
Balance at January 1, 2017	4,171,197	1,679,964	716,962	1,304,872	5,520	1,920,297	9,798,812
Changes in equity for the year:							
Net profit for the year	—	—	—	—	—	1,500,416	1,500,416
Other comprehensive income	—	—	—	—	(59,849)	—	(59,849)
Total comprehensive income	—	—	—	—	(59,849)	1,500,416	1,440,567
Appropriation of profits							
— Appropriation to surplus reserve	—	—	150,042	—	—	(150,042)	—
— Appropriation to general reserve	—	—	—	262,191	—	(262,191)	—
— Appropriation to shareholders	—	—	—	—	—	(625,680)	(625,680)
Balance at December 31, 2017	4,171,197	1,679,964	867,004	1,567,063	(54,329)	2,382,800	10,613,699

	Share capital	Capital reserve	Surplus reserve	General reserve	Impairment reserve	Fair value reserve	Retained earnings	Total
Balance at December 31, 2017	4,171,197	1,679,964	867,004	1,567,063	—	(54,329)	2,382,800	10,613,699
Changes in accounting policies	—	—	—	—	3,717	(124,814)	(113,270)	(234,367)
Balance at January 1, 2018	4,171,197	1,679,964	867,004	1,567,063	3,717	(179,143)	2,269,530	10,379,332
Changes in equity for the year:								
Net profit for the year	—	—	—	—	—	—	866,174	866,174
Other comprehensive income	—	—	—	—	4,516	126,035	—	130,551
Total comprehensive income	—	—	—	—	4,516	126,035	866,174	996,725
Capital contribution by equity shareholders	800,000	1,440,000	—	—	—	—	—	2,240,000
Appropriation of profits								
— Appropriation to surplus reserve	—	—	85,742	—	—	—	(85,742)	—
— Appropriation to general reserve	—	—	—	101,039	—	—	(101,039)	—
— Appropriation to shareholders	—	—	—	—	—	—	(417,120)	(417,120)
Balance at December 31, 2018	4,971,197	3,119,964	952,746	1,668,102	8,233	(53,108)	2,531,803	13,198,937

	Share capital	Perpetual bonds	Capital reserve	Surplus reserve	General reserve	Impairment reserve	Fair value reserve	Retained earnings	Total
Balance at January 1, 2019	4,971,197	—	3,119,964	952,746	1,668,102	8,233	(53,108)	2,531,803	13,198,937
Changes in equity for the year:									
Net profit for the year	—	—	—	—	—	—	—	1,283,882	1,283,882
Other comprehensive income	—	—	—	—	—	922	23,277	—	24,199
Total comprehensive income	—	—	—	—	—	922	23,277	1,283,882	1,308,081
Capital contribution by equity shareholders	—	2,999,675	—	—	—	—	—	—	2,999,675
Appropriation of profits									
— Appropriation to surplus reserve	—	—	—	136,334	—	—	—	(136,334)	—
— Appropriation to general reserve	—	—	—	—	286,802	—	—	(286,802)	—
— Appropriation to shareholders and bondholders	—	—	—	—	—	—	—	(431,494)	(431,494)
Balance at December 31, 2019	4,971,197	2,999,675	3,119,964	1,089,080	1,954,904	9,155	(29,831)	2,961,055	17,075,199

	Share capital	Capital reserve	Surplus reserve	General reserve	Impairment reserve	Fair value reserve	Retained earnings	Total
Balance at January 1, 2019	4,971,197	3,119,964	952,746	1,668,102	8,233	(53,108)	2,531,803	13,198,937
Changes in equity for the period:								
Net profit for the period	—	—	—	—	—	—	318,471	318,471
Other comprehensive income	—	—	—	—	1,505	(31,433)	—	(29,928)
Total comprehensive income	—	—	—	—	1,505	(31,433)	318,471	288,543
Balance at March 31, 2019 (unaudited)	4,971,197	3,119,964	952,746	1,668,102	9,738	(84,541)	2,850,274	13,487,480

	Share capital	Perpetual bonds	Capital reserve	Surplus reserve	General reserve	Impairment reserve	Fair value reserve	Retained earnings	Total
Balance at January 1, 2020	4,971,197	2,999,675	3,119,964	1,089,080	1,954,904	9,155	(29,831)	2,961,055	17,075,199
Changes in equity for the period:									
Net profit for the period	—	—	—	—	—	—	—	369,711	369,711
Other comprehensive income	—	—	—	—	—	3,605	235,378	—	238,983
Total comprehensive income	—	—	—	—	—	3,605	235,378	369,711	608,694
Appropriation of profits									
— Appropriation to general reserve	—	—	—	—	201,635	—	—	(201,635)	—
— Appropriation to shareholders	—	—	—	—	—	—	—	(497,120)	(497,120)
Balance at March 31, 2020	4,971,197	2,999,675	3,119,964	1,089,080	2,156,539	12,760	205,547	2,632,011	17,186,773

36. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities mainly include wealth management products issued by financial institutions and investment management products managed by securities firms and under trust schemes. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statement of financial position in which relevant assets are recognised as at December 31, 2017, 2018 and 2019 and March 31, 2020:

	December 31, 2017		December 31, 2018		December 31, 2019		March 31, 2020	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Available-for-sale financial assets	3,198,475	3,198,475	—	—	—	—	—	—
Held-to-maturity investments	56,008	56,008	—	—	—	—	—	—
Investments classified as receivables	38,007,908	38,007,908	—	—	—	—	—	—
Financial investments at fair value through profit or loss	—	—	17,339,100	17,339,100	14,579,037	14,579,037	14,763,891	14,763,891
Financial investments at amortised cost	—	—	16,930,217	16,930,217	17,876,466	17,876,466	16,860,643	16,860,643
Total	41,262,391	41,262,391	34,269,317	34,269,317	32,455,503	32,455,503	31,624,534	31,624,534

As at December 31, 2017, 2018 and 2019 and March 31, 2020, the carrying amounts of the unconsolidated structured entities are equal to the maximum exposures.

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at December 31, 2017, 2018 and 2019 and March 31, 2020, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material in the consolidated statements of financial position.

For the years ended December 31, 2017, 2018 and 2019 and March 31, 2019 and 2020, the amount of fee and commission income received from the abovementioned structured entities by the Group are RMB55.9 million, RMB41.1 million, RMB90.9 million, RMB27.6 million (unaudited) and RMB32.4 million, respectively.

As at December 31, 2017, 2018 and 2019 and March 31, 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products sponsored by the Group are RMB12,557 million, RMB18,018 million, RMB20,124 million and RMB20,225 million, respectively.

(c) Unconsolidated structure entities sponsored by the Group during the year which the Group does not have an interest in as at December 31, 2017, 2018 and 2019 and March 31, 2020:

For the years ended December 31, 2017, 2018 and 2019 and March 31, 2020, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before December 31, and March 31, amounted to RMB21,593 million, RMB22,512 million, RMB21,554 million and Nil, respectively.

37. CAPITAL MANAGEMENT

The Group's capital management includes capital adequacy ratio management and capital financing management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of the Group is divided into core tier-one capital, other core tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the former CBRC.

The former CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systematically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.

The Group's capital adequacy ratios at December 31, 2017, 2018 and 2019 and March 31, 2020 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

The Group

	At December 31,			At March 31,
	2017	**2018**	**2019**	**2020**
Total core tier-one capital				
— Share capital	4,171,197	4,971,197	4,971,197	4,971,197
— Qualifying portion of capital reserve	1,679,964	3,119,964	3,119,964	3,112,322
— Surplus reserve	867,004	952,746	1,089,080	1,089,080
— General reserve	1,573,622	1,726,858	2,079,232	2,293,035
— Other comprehensive income	(54,329)	(44,875)	(20,676)	218,307
— Retained earnings	2,446,058	2,641,088	3,160,582	2,809,060
— Qualifying portions of non-controlling interests	235,335	321,739	363,690	482,540
Core tier-one capital	10,918,851	13,688,717	14,763,069	14,975,541
Core tier-one capital deductions	(40,409)	(35,709)	(38,864)	(35,245)
Net core tier-one capital	10,878,442	13,653,008	14,724,205	14,940,296
Other tier-one capital	31,378	42,899	3,048,167	3,064,013
Net tier-one capital	10,909,820	13,695,907	17,772,372	18,004,309

	At December 31,			At March 31,
	2017	2018	2019	2020
Tier-two capital				
— Instruments issued and share premium	5,000,000	5,000,000	5,000,000	5,000,000
— Surplus provision for loan impairment	842,224	1,092,468	1,315,897	1,394,732
— Qualifying portions of non-controlling interests	62,756	85,799	96,985	128,677
Net tier-two capital	5,904,980	6,178,267	6,412,882	6,523,409
Net capital base	16,814,800	19,874,174	24,185,254	24,527,718
Total risk weighted assets	131,192,864	131,405,447	150,891,479	162,994,027
Core tier-one capital adequacy ratio	8.29%	10.39%	9.76%	9.17%
Tier-one capital adequacy ratio	8.32%	10.42%	11.78%	11.05%
Capital adequacy ratio	12.82%	15.12%	16.03%	15.05%

38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Net (decrease)/increase in cash and cash equivalents

	Years ended December 31,			Three months ended March 31,
	2017	2018	2019	2020
Cash and cash equivalents as at December 31/March 31	22,302,929	20,863,452	35,241,608	33,478,810
Less: Cash and cash equivalents as at January 1	(31,190,226)	(22,302,929)	(20,863,452)	(35,241,608)
Net (decrease)/increase in cash and cash equivalents	(8,887,297)	(1,439,477)	14,378,156	(1,762,798)

(b) Cash and cash equivalents

	At December 31,			At March 31,
	2017	2018	2019	2020
Cash on hand	209,599	178,100	194,466	283,658
Deposits with central bank other than restricted deposits	3,728,478	5,957,320	7,725,599	5,824,341
Deposits with banks and other financial institutions	1,129,495	1,036,229	2,026,846	1,064,853
Placements with banks and other financial institutions	1,202,293	1,264,280	500,000	566,808
Debt investments with maturity of three months or less	16,033,064	12,427,523	24,794,697	25,739,150
Total	22,302,929	20,863,452	35,241,608	33,478,810

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Debt securities issued	**Interest payable arising from debt securities issued**	**Total**
	(Note 31)	*(Note 32(a))*	
As at January 1, 2017	25,495,009	143,414	25,638,423
Changes in cash flows from financing activities			
Net proceeds from new debt securities issued	74,957,771	—	74,957,771
Repayment of debt securities issued	(67,040,000)	—	(67,040,000)
Interest paid on debt securities issued	—	(1,154,388)	(1,154,388)
Total changes from financing cash flows	7,917,771	(1,154,388)	6,763,383
Other changes			
Interest expense *(Note 3)*	—	1,201,534	1,201,534
Total other changes	—	1,201,534	1,201,534
As at December 31, 2017	33,412,780	190,560	33,603,340

	Debt securities issued	**Interest accrued arising from debt securities issued**	**Total**
	(Note 31)	*(Note 31)*	
As at January 1, 2018	33,412,780	190,560	33,603,340
Changes in cash flows from financing activities			
Net proceeds from new debt securities issued	61,994,103	—	61,994,103
Repayment of debt securities issued	(52,740,000)	—	(52,740,000)
Interest paid on debt securities issued	—	(1,973,906)	(1,973,906)
Total changes from financing cash flows	9,254,103	(1,973,906)	7,280,197
Other changes			
Interest expense *(Note 3)*	—	2,058,977	2,058,977
Total other changes	—	2,058,977	2,058,977
As at December 31, 2018	42,666,883	275,631	42,942,514

	Debt securities issued	Interest accrued arising from debt securities issued	Lease liabilities	Total
	(Note 31)	*(Note 31)*	*(Note 30)*	
As at January 1, 2019	42,666,883	275,631	427,754	43,370,268
Changes from financing cash flows				
Net proceeds from new debt securities issued	65,574,592	—	—	65,574,592
Repayment of debt securities issued	(78,790,000)	—	—	(78,790,000)
Interest paid on debt securities issued	—	(1,513,521)	—	(1,513,521)
Capital element of lease liabilities paid	—	—	(105,591)	(105,591)
Interest element of lease liabilities paid	—	—	(22,907)	(22,907)
Total changes from financing cash flows	(13,215,408)	(1,513,521)	(128,498)	(14,857,427)
Other changes				
Interest expense *(Note 3)*	—	1,411,197	22,907	1,434,104
Addition during the year	—	—	126,519	126,519
Total other changes	—	1,411,197	149,426	1,560,623
As at December 31, 2019	29,451,475	173,307	448,682	30,073,464

	Debt securities issued	Interest accrued arising from debt securities issued	Lease liabilities	Total
	(Note 31)	*(Note 31)*	*(Note 30)*	
As at January 1, 2020	29,451,475	173,307	448,682	30,073,464
Changes from financing cash flows				
Net proceeds from new debt securities issued	5,661,410	—	—	5,661,410
Repayment of debt securities issued	(6,450,000)	—	—	(6,450,000)
Interest paid on debt securities issued	—	(293,493)	—	(293,493)
Capital element of lease liabilities paid	—	—	(33,659)	(33,659)
Interest element of lease liabilities paid	—	—	(5,524)	(5,524)
Total changes from financing cash flows	(788,590)	(293,493)	(39,183)	(1,121,266)
Other changes				
Interest expense *(Note 3)*	—	275,553	5,524	281,077
Addition during the period	—	—	38,102	38,102
Total other changes	—	275,553	43,626	319,179
As at March 31, 2020	28,662,885	155,367	453,125	29,271,377

39. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties of the Group

i. Major shareholders

Major shareholders include shareholders of the Bank with a direct or indirect 5% or above shareholding, or with the right to appoint a director, member of the Board of Supervisors in the Bank.

Shareholdings in the Bank:

	At December 31,			At March 31,
	2017	**2018**	**2019**	**2020**
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	39.56%	33.20%	33.20%	33.20%
Weihai City Finance Bureau (威海市財政局)	17.67%	18.50%	18.50%	18.50%
China Heavy Truck Group Co., Limited (中國重型汽車集團有限公司)	16.28%	16.28%	16.28%	4.89%
Shandong Hi-Speed Company Limited (山東高速股份有限公司)	7.59%	13.96%	13.96%	13.96%
Qilu Transportation (齊魯交通發展集團有限公司)	—	—	—	11.39%
Weihai Tianan (威海天安房地產開發有限公司)	2.79%	2.75%	3.30%	3.30%
Shandong Global Fishing Gear Co., Ltd. (山東環球漁具股份有限公司)	1.75%	1.67%	1.67%	1.67%
Shandong Haodangjia Ocean Development Co., Ltd. (山東好當家海洋發展股份有限公司)	1.71%	1.44%	1.44%	1.44%
Weihai Xinghai (威海興海貿易有限公司)	2.82%	2.37%	1.21%	1.21%

The official names of these related parties are in Chinese. The English translation is for reference only.

ii. Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 20.

iii. Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 39(a) or their controlling shareholders.

(b) Transactions with related parties other than key management personnel

i. Transactions between the Bank and major shareholders:

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Transactions during the year/period					
Interest income	9,618	9,260	7,464	2,542	4
Interest expense	167,993	81,702	161,769	33,089	34,600
Fee and commission income	254	734	20	8	9
Rental expenses	1,837	1,837	—	—	—

	At December 31,			At March 31,
	2017	2018	2019	2020
Balances at end of the year/period				
Loans and advances to customers	160,000	152,269	10,002	19,995
Interests receivables	279	—	—	—
Deposits from customers	6,352,800	5,785,203	5,854,865	6,352,556
Interests payable	174,289	—	—	—

ii. Transactions between the Bank and subsidiary:

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Transactions during the year/period					
Interest income	7,243	13,587	8,289	9,600	13,853
Interest expense	44,912	56,147	42,945	3,089	2,019
Rental income	1,921	2,095	2,095	524	524

	At December 31,			At March 31,
	2017	2018	2019	2020
Balances at end of the year/period				
Loans and advances to customers	—	1,100,433	1,224,234	1,357,363
Interests receivables	31,460	—	—	—
Other assets	524	524	524	—
Deposits with banks and other financial institutions	1,500,000	—	—	—
Deposits from banks and other financial institutions	—	401,055	—	—
Deposits from customers	1,029,349	—	293,489	349,737
Interests payable	861	433	—	—

iii. Transactions between the Bank and other related parties:

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Transactions during the year/period					
Interest income	55,397	81,174	122,903	26,998	35,322
Interest expense	22,027	23,119	23,834	16,276	8,686
Fee and commission income	3,996	1,139	618	151	353
Rental expenses	2,157	2,233	2,233	558	558

	At December 31,			At March 31,
	2017	2018	2019	2020
Balances at end of the year/period				
Loans and advances to customers	1,082,551	1,885,603	2,399,213	2,143,181
Interests receivables	1,531	—	—	—
Deposits from banks and other financial institutions	435	6	—	—
Deposits from customers	3,195,183	4,956,076	2,905,979	2,867,271
Interests payable	2,118	—	—	—
Bank acceptances	520,000	238,000	26,940	96,940
Letters of guarantees	123,096	92,083	95,576	78,154
Letters of credit	23,900	—	19,000	23,980

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and senior management.

i. Transactions between the Bank and key management personnel

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Transactions during the year/period					
Interest income	130	202	87	35	22
Interest expense	15	7	146	2	117

	At December 31,			At March 31,
	2017	2018	2019	2020
Balances at end of the year/period				
Loans and advances to customers	4,423	3,731	1,803	1,803
Interests receivable	6	—	—	—
Deposits from customers	2,987	9,100	9,444	7,526
Interests payable	27	—	—	—

ii. ***Key management personnel compensation***

The aggregate compensation to key management personnel is listed as follows:

	Years ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
Key management personnel compensation	19,718	19,737	21,263	3,681	3,605

(d) Loans and advances to directors, supervisors and officers

	Years ended December 31,			Three months ended March 31,
	2017	2018	2019	2020
Aggregate amount of relevant loans outstanding at the end of the year/period	4,423	3,731	1,803	1,803
Maximum aggregate amount of relevant loans outstanding during the year/period	4,732	5,623	4,925	1,803

There were no amount due but unpaid, nor any impairment provision made against the principal of or interest on these loans at December 31, 2017, 2018 and 2019 and March 31, 2020.

40. SEGMENT REPORTING

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, personal wealth management services and remittance services.

Financial market business

This segment covers the Group's Financial market business operations. The Financial market business enters into inter-bank money market transactions, repurchases transactions, and investments. It also trades in debt securities. The Financial market business segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which are not directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Intra-group balances and intra-group transactions are eliminated by segment income, expenses, assets and liabilities as part of the consolidation process. Segment capital expenditure is the total cost incurred during the Track Record Period to acquire property and equipment, intangible assets and other long-term assets.

	Year ended December 31, 2017				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income/(expense)	1,728,243	(645,097)	2,561,157	—	3,644,303
Internal net interest income/(expense)	247,835	1,140,735	(1,388,570)	—	—
Net interest income	1,976,078	495,638	1,172,587	—	3,644,303
Net fee and commission income	160,326	26,411	56,362	(6,380)	236,719
Net trading losses	(524)	—	(38,513)	—	(39,037)
Net loss arising from investment securities	—	—	44,202	—	44,202
Other operating income	—	—	—	21,774	21,774
Operating income	2,135,880	522,049	1,234,638	15,394	3,907,961
Operating expenses	(878,340)	(220,528)	(321,473)	(18,845)	(1,439,186)
Impairment losses on assets	(329,352)	(42,172)	(138,605)	(1,048)	(511,177)
Profit/(loss) before tax	928,188	259,349	774,560	(4,499)	1,957,598
Segment assets	72,739,573	15,047,606	115,359,106	1,085,069	204,231,354
Deferred tax assets	—	—	—	266,567	266,567
Total assets	72,739,573	15,047,606	115,359,106	1,351,636	204,497,921
Segment liabilities	89,881,311	41,469,690	60,902,383	1,173,430	193,426,814
Deferred tax liabilities	—	—	—	—	—
Total liabilities	89,881,311	41,469,690	60,902,383	1,173,430	193,426,814
Other segment information					
— Depreciation and amortisation	57,608	19,071	26,635	3,813	107,127
— Capital expenditure	48,507	13,234	19,259	238	81,238

	Year ended December 31, 2018				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income/(expense)	1,574,805	(332,312)	659,954	—	1,902,447
Internal net interest income/(expense)	626,022	1,019,630	(1,645,652)	—	—
Net interest income	2,200,827	687,318	(985,698)	—	1,902,447
Net fee and commission income	17,323	27,067	34,440	(5,632)	73,198
Net trading gains	17,276	—	48,064	—	65,340
Net gains arising from investment securities	—	—	1,773,346	—	1,773,346
Other operating income	—	—	—	19,207	19,207

	Year ended December 31, 2018				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income	2,235,426	714,385	870,152	13,575	3,833,538
Operating expenses	(722,082)	(305,899)	(304,656)	(16,141)	(1,348,778)
Impairment losses on assets	(969,792)	(244,562)	(115,756)	(5,176)	(1,335,286)
Profit/(loss) before tax	543,552	163,924	449,740	(7,742)	1,149,474
Segment assets	75,933,552	21,553,683	103,846,449	1,196,254	202,529,938
Deferred tax assets	—	—	—	591,947	591,947
Total assets	75,933,552	21,553,683	103,846,449	1,788,201	203,121,885
Segment liabilities	82,971,080	44,689,085	60,807,623	846,640	189,314,428
Deferred tax liabilities	—	—	—	—	—
Total liabilities	82,971,080	44,689,085	60,807,623	846,640	189,314,428
Other segment information					
— Depreciation and amortisation	55,700	22,881	22,725	4,012	105,318
— Capital expenditure	38,930	16,966	16,852	109	72,857

	Year ended December 31, 2019				
	Corporate banking	Retail banking	Financial market Business	Others	Total
Operating income					
External net interest income/(expense)	1,852,069	(502,519)	1,956,686	—	3,306,236
Internal net interest income/(expense)	931,349	1,337,074	(2,268,423)	—	—
Net interest income	2,783,418	834,555	(311,737)	—	3,306,236
Net fee and commission income	129,054	62,574	91,363	(11,282)	271,709
Net trading gains	19,238	—	55,193	—	74,431
Net gains arising from investment securities	—	—	1,294,442	—	1,294,442
Other operating income	—	—	—	365	365
Operating income	2,931,710	897,129	1,129,261	(10,917)	4,947,183
Operating expenses	(1,033,511)	(220,017)	(191,998)	(16,816)	(1,462,342)
Impairment losses on assets	(1,071,662)	(312,398)	(276,622)	(10,486)	(1,671,168)
Profit/(loss) before tax	826,537	364,714	660,641	(38,219)	1,813,673
Segment assets	88,263,465	30,222,897	103,836,924	1,354,484	223,677,770
Deferred tax assets	—	—	—	957,751	957,751
Total assets	88,263,465	30,222,897	103,836,924	2,312,235	224,635,521
Segment liabilities	102,609,063	57,830,121	44,922,750	1,350,089	206,712,023
Total liabilities	102,609,063	57,830,121	44,922,750	1,350,089	206,712,023
Other segment information					
— Depreciation and amortisation	65,575	15,060	134,255	2,853	217,743
— Capital expenditure	52,145	11,975	9,472	—	73,592

	Three months ended March 31, 2019 (unaudited)				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income/(expense)	448,280	(113,612)	362,244	—	696,912
Internal net interest income/(expense)	207,154	338,399	(545,553)	—	—
Net interest income	655,434	224,787	(183,309)	—	696,912
Net fee and commission income	(10,669)	20,983	38,120	(2,274)	46,160
Net trading (losses)/gains	(1,659)	—	61,308	—	59,649
Net gains arising from investment securities	—	—	353,072	—	353,072
Other operating income	3,043	—	—	337	3,380
Operating income	646,149	245,770	269,191	(1,937)	1,159,173
Operating expenses	(216,368)	(111,808)	(37,498)	(649)	(366,323)
Impairment losses on assets	(215,428)	(59,670)	(71,194)	—	(346,292)
Profit/(loss) before tax	214,353	74,292	160,499	(2,586)	446,558
Other segment information					
— Depreciation and amortisation	32,704	16,408	5,454	1,009	55,575
— Capital expenditure	5,019	2,509	836	—	8,364

	Three months ended March 31, 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income/(expense)	437,870	(135,348)	629,104	—	931,626
Internal net interest income/(expense)	316,327	453,266	(769,593)	—	—
Net interest income	754,197	317,918	(140,489)	—	931,626
Net fee and commission income	57,103	29,275	38,461	(1,161)	123,678
Net trading gains/(losses)	8,581	—	(21,309)	—	(12,728)
Net gains arising from investment securities	—	—	417,358	—	417,358
Other operating income	4,283	—	—	906	5,189
Operating income	824,164	347,193	294,021	(255)	1,465,123
Operating expenses	(215,828)	(125,606)	(16,122)	(716)	(358,272)
Impairment losses on assets	(394,211)	(119,012)	(121,126)	—	(634,349)
Profit/(loss) before tax	214,125	102,575	156,773	(971)	472,502
Segment assets	96,718,298	30,760,551	105,317,517	1,425,575	234,221,941
Deferred tax assets	—	—	—	1,068,244	1,068,244
Total assets	96,718,298	30,760,551	105,317,517	2,493,819	235,290,185
Segment liabilities	112,198,513	62,512,058	39,778,649	2,646,485	217,135,705
Total liabilities	112,198,513	62,512,058	39,778,649	2,646,485	217,135,705
Other segment information					
— Depreciation and amortisation	31,143	17,830	1,994	459	51,426
— Capital expenditure	5,676	2,837	946	–	9,459

41. RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

Risk management system

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control procedures for monitoring risks level. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors is responsible for establishing and maintaining a robust and effective risk management system and determining general risk preference and risk tolerance of the Group. Based on the general strategy of the Group, the Risk Management Committee under the Board reviews the Group's risk management system and basic principles, risk management strategies and internal control system framework; supervises and evaluates the establishment, organization, processes and effectiveness of risk management departments; supervises and evaluates risk control by the management in aspects such as credit risk, market risk and operational risk; and conducts identification, monitoring, control and regular assessment of the Group's risk management and risk tolerance. Senior management led by the president will be responsible for the control of credit risk, market risk, operational risk and approval of related policies and procedures. In addition, the Group set up departments such as the Department of Risk Management, Department of Credit Approval, Financial Planning Department, Department of Law and Compliance and Audit Department based on the requirements of general risk management to perform respective functions in risk management, strengthen risk-covering portfolio management capabilities and conduct inspection on compliance with risk management policy of internal control system on regular or irregular basis.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

To identify, assess, monitor and manage credit risks, the Group has designed effective system frameworks, credit policies and processes for credit risk management and implemented systematic control procedures. The responsible departments for credit risk management mainly include the Risk Management Department and Credit Approval Department. The Risk Management Department is responsible for implementing the Group's overall risk management system, risk monitoring and control and formulating risk management policies. The Credit Approval Department is independent from customer relationship and product management departments to ensure the independence of credit approval. Front office departments including Corporate Business Department and Personal Finance Department carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of all processes of the credit business. Based on effective checks and balances, the Group has established comprehensive assessment and accountability mechanisms, assigning responsibilities of credit management to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-, region-, product- and client-specific limits for credit approval. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments or personnel for approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardised loan recovery procedures.

The following credit risk management applies to the period before January 1, 2018:

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful or loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal: . . . . Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

Special mention: . . . . . . Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.

Substandard: . . . . Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.

Doubtful: . . . . Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.

Loss: . . . . Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The following credit risk management applies to the period after January 1, 2018:

Stages of risks in financial instrument

After adopting IFRS 9 at January 1, 2018, the financial assets are categorised by the Group into the following stages to manage its financial assets' credit risk:

Stage 1

Financial assets have not experienced a significant increase in credit risk since origination and impairment is recognised on the basis of 12 months expected credit losses.

Stage 2

Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3

Financial assets that are in default and considered credit-impaired.

Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

— The credit spread increases significantly

— Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status

— Application of a grace period or debt-restructuring

— Significant changes with an adverse effect in the borrower's business conditions

— Less value of the collaterals (for the collateral loans and pledged loans only)

— Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans

— The borrower is more than 30 days past due.

The Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at December 31, 2018 and 2019 and March 31, 2020, the Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

Definition of "default" and "credit-impaired assets"

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

— the disappearance of an active market for the financial asset because of financial difficulties of the issuer; or

— overdue more than 90 days.

The above criteria apply to all financial assets of the Group and they are consistent with the definition of "default" adopted by the internal management of credit risk.

Measurement of expected credit losses ("ECL")

The Group adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"). The definitions of these terms are as follows:

— PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;

— EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;

— LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future years. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default in an earlier period). By adopting this approach, the Group can calculate the ECL for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the pattern of default of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

- In respect of the financial assets with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of overlimit repayment and prepayments/refinancing made by the borrower.

- As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the balance sheet date by the credit conversion factor (CCF).

- The Group determines the 12-month and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.

- As to financial assets classified as security, the Group determines the LGD according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.

- As to credit-based financial assets, the Group usually determines LGD in the product level due to the limited differences in recoverable amounts from different borrowers.

Forward-looking economic information should be considered when determining the 12-month and lifetime PD, EAD and LGD.

The Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

As at December 31, 2018 and 2019 and March 31, 2020, there has been no significant changes in the estimate techniques and key assumptions of the Group.

Forward-looking information included in the expected credit loss model is as follows:

- Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting the future economic indicators.

- When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of the scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under the different scenarios by the weight of the corresponding scenarios.

- Similar to other economic forecasts, there is high inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.

- Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

i. Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each of the Track Record Period.

ii. Financial assets analysed by credit quality are summarised as follows:

The Group

	Year ended December 31, 2017				
	Loans and advances	**Deposits/ placements with banks and other financial institutions**	**Financial assets held under resale agreement**	**Financial investments**	**Others**
				(Note i)	*(Note ii)*
Impaired					
Individually assessed gross amount	978,361	—	—	505,808	8,991,562
Provision for impairment losses	(399,039)	—	—	(180,076)	(111,530)
Sub-total	579,322	—	—	325,732	8,880,032
Collectively assessed gross amount	—	—	—	—	—
Provision for impairment Losses	—	—	—	—	—
Sub-total	—	—	—	—	—
Overdue but not impaired					
Less than three months (inclusive)	922,386	—	—	—	—
Between three months and six months (inclusive)	432,232	—	—	—	—
Between six months and one year (inclusive)	537,220	—	—	—	—
More than one year	2,292	—	—	—	—
Gross amount	1,894,130	—	—	—	—
Provision for impairment losses	(22,038)	—	—	—	—
Sub-total	1,872,092	—	—	—	—
Neither overdue nor impaired					
Gross amount	63,646,128	2,331,788	15,058,130	91,176,553	1,546,841
Provision for impairment losses	(1,300,128)	—	—	(187,396)	—
Sub-total	62,346,000	2,331,788	15,058,130	90,989,157	1,546,841
Total	64,797,414	2,331,788	15,058,130	91,314,889	10,426,873

	Year ended December 31, 2018				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments	Others
				(Note iii)	*(Note ii)*
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
— Overdue but not credit-impaired	—	—	—	—	—
— Neither overdue nor credit-impaired	68,574,992	2,300,509	1,392,000	91,959,192	12,173,188
Sub-total	68,574,992	2,300,509	1,392,000	91,959,192	12,173,188
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
— Overdue but not credit-impaired	1,527,999	—	—	—	—
— Neither overdue nor credit-impaired	3,322,642	—	—	305,581	27,054
Sub-total	4,850,641	—	—	305,581	27,054
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
— Overdue and credit-impaired	1,719,810	—	—	300,000	71,067
— Credit-impaired but not overdue	50,247	—	—	210,702	—
Sub-total	1,770,057	—	—	510,702	71,067
Interests accrued	350,218	26,319	1,190	1,005,883	109,057
Less: Provision for impairment losses	(2,229,404)	(47)	(915)	(169,866)	(235,120)
Net value	73,316,504	2,326,781	1,392,275	93,611,492	12,145,246

	Year ended December 31, 2019				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments	Others
				(Note iii)	*(Note ii)*
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
— Overdue but not credit-impaired	259,490	—	—	—	—
— Neither overdue nor credit-impaired	83,396,177	2,526,846	5,389,300	86,816,184	13,441,513
Sub-total	83,655,667	2,526,846	5,389,300	86,816,184	13,441,513
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
— Overdue but not credit-impaired	5,917,109	—	—	—	218,677
— Neither overdue nor credit-impaired	734,036	—	—	500,000	—
Sub-total	6,651,145	—	—	500,000	218,677
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
— Overdue and credit-impaired	2,144,689	—	—	300,000	71,067
— Credit-impaired but not overdue	109	—	—	531,281	—
Sub-total	2,144,798	—	—	831,281	71,067
Interests accrued	413,389	7,268	821	1,281,510	168,195
Less: Provision for impairment losses	(2,753,357)	(1)	(3,559)	(300,530)	(391,104)
Net value	90,111,642	2,534,113	5,386,562	89,128,445	13,508,348

	At March 31, 2020			
	Loans and advances	**Deposits/ placements with banks and other financial institutions**	**Financial investments**	**Others**
			(Note iii)	*(Note ii)*
Balance of financial assets that are assessed for ECLs over the next 12 months				
— Overdue but not credit-impaired	1,250,733	—	—	—
— Neither overdue nor credit-impaired	92,817,378	1,631,661	92,698,745	15,506,463
Sub-total	94,068,111	1,631,661	92,698,745	15,506,463
Balance of financial assets that are not credit-impaired and assessed for lifetime ECLs				
— Overdue but not credit-impaired	864,086	—	—	213,360
— Neither overdue nor credit-impaired	6,345,689	—	500,000	—
Sub-total	7,209,775	—	500,000	213,360
Balance of credit-impaired financial assets that are assessed for lifetime ECLs				
— Overdue and credit-impaired	2,388,025	—	605,581	75,929
— Credit-impaired but not overdue	—	—	—	—
Sub-total	2,388,025	—	605,581	75,929
Interests accrued	533,643	1,233	1,465,798	187,827
Less: Provision for impairment losses	(2,993,881)	(9)	(365,504)	(430,245)
Net value	101,205,673	1,632,885	94,904,620	15,553,334

Notes:

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

(ii) Others comprise interests receivables, finance lease receivables and other receivables in other assets.

(iii) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

Financial assets (exclusive interests accrued) and credit commitments analysed by credit quality

The Group

	At December 31, 2018								
	Balance				Provision for impairment losses				ECL rate
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets measured at amortised cost									
Cash and deposits with the central bank	18,464,800	—	—	18,464,800	—	—	—	—	N/A
Deposits with banks And other financial institutions	1,036,229	—	—	1,036,229	(32)	—	—	(32)	0.00%(note)
Placements with banks and other financial institutions	1,264,280	—	—	1,264,280	(15)	—	—	(15)	0.00%(note)
Financial assets held under resale agreements	1,392,000	—	—	1,392,000	(915)	—	—	(915)	0.07%
Loans and advances to customers	61,970,899	4,850,641	1,770,057	68,591,597	(724,679)	(634,218)	(844,338)	(2,203,235)	3.21%
Financial investments	50,953,380	305,581	300,000	51,558,961	(160,915)	(2,763)	(6,188)	(169,866)	0.33%
Other assets	12,533,306	—	—	12,533,306	(237,995)	—	—	(237,995)	1.90%
Total	147,614,894	5,156,222	2,070,057	154,841,173	(1,124,551)	(636,981)	(850,526)	(2,612,058)	1.69%
Financial assets at fair value through other comprehensive income									
Loans and advances to customers	6,604,093	—	—	6,604,093	(7,741)	—	—	(7,741)	0.12%
Financial investments	18,207,779	—	—	18,207,779	(3,235)	—	—	(3,235)	0.02%
Total	24,811,872	—	—	24,811,872	(10,976)	—	—	(10,976)	0.04%
Credit commitments	24,140,569	—	—	24,140,569	(55,843)	—	—	(55,843)	0.23%

	At December 31, 2019								
	Balance				Provision for impairment losses				ECL rate
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets measured at amortised cost									
Cash and deposits with the central bank	21,203,836	—	—	21,203,836	—	—	—	—	N/A
Deposits with banks and other financial institutions	2,026,846	—	—	2,026,846	—	—	—	—	N/A
Placements with banks and other financial institutions	500,000	—	—	500,000	(1)	—	—	(1)	0.00%(note)
Financial assets held under resale agreements	5,389,300	—	—	5,389,300	(3,559)	—	—	(3,559)	0.07%
Loans and advances to customers	77,009,803	6,635,946	2,144,795	85,790,544	(912,430)	(824,653)	(988,492)	(2,725,575)	3.18%
Financial investments	54,913,655	500,000	605,581	56,019,236	(180,346)	(110,000)	(10,184)	(300,530)	0.54%
Other assets	14,019,191	—	—	14,019,191	(394,920)	—	—	(394,920)	2.82%
Total	175,062,631	7,135,946	2,750,376	184,948,953	(1,491,256)	(934,653)	(998,676)	(3,424,585)	1.85%

	At December 31, 2019								
	Balance				Provision for impairment losses				ECL rate
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets at fair value through other comprehensive income									
Loans and advances to customers	6,661,066	—	—	6,661,066	(7,626)	—	—	(7,626)	0.11%
Financial investments	13,621,085	—	—	13,621,085	(4,581)	—	—	(4,581)	0.03%
Total	20,282,151	—	—	20,282,151	(12,207)	—	—	(12,207)	0.06%
Credit commitments	27,360,205	—	—	27,360,205	(61,259)	—	—	(61,259)	0.22%

	At March 31, 2020								
	Balance				Provision for impairment losses				ECL rate
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets measured at amortised cost									
Cash and deposits with the central bank	19,256,136	—	—	19,256,136	—	—	—	—	N/A
Deposits with banks and other financial institutions	1,064,853	—	—	1,064,853	—	—	—	—	N/A
Placements with banks and other financial institutions	566,808	—	—	566,808	(9)	—	—	(9)	0.00% (note)
Loans and advances to customers	85,157,511	7,209,775	2,388,025	94,755,311	(981,558)	(909,696)	(1,062,633)	(2,953,887)	3.12%
Financial investments	51,077,354	500,000	605,579	52,182,933	(181,542)	(165,000)	(18,962)	(365,504)	0.70%
Other assets	15,878,938	126,614	–	16,005,552	(399,117)	(31,654)	—	(430,771)	2.69%
Total	173,001,600	7,836,389	2,993,604	183,831,593	(1,562,226)	(1,106,350)	(1,081,595)	(3,750,171)	2.04%
Financial assets at fair value through other comprehensive income									
Loans and advances to customers	8,910,600	—	—	8,910,600	(10,180)	—	—	(10,180)	0.11%
Financial investments	23,874,324	—	—	23,874,324	(6,833)	—	—	(6,833)	0.03%
Total	32,784,924	—	—	32,784,924	(17,013)	—	—	(17,013)	0.05%
Credit commitments	30,055,964	—	—	30,055,964	(65,431)	—	—	(65,431)	0.22%

Note: The amount represented an ECL rate of below 0.01%.

The overall ECL rate for financial assets and credit commitments analysed by credit quality

	At December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	0.76%	12.35%	41.09%	1.69%
Financial assets at fair value through other comprehensive income	0.04%	N/A	N/A	0.04%
Credit commitments	0.23%	N/A	N/A	0.23%

	At December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	0.85%	13.10%	36.31%	1.85%
Financial assets at fair value through other comprehensive income	0.06%	N/A	N/A	0.06%
Credit commitments	0.22%	N/A	N/A	0.22%

	At March 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	0.90%	14.12%	36.13%	2.04%
Financial assets at fair value through other comprehensive income	0.05%	N/A	N/A	0.05%
Credit commitments	0.22%	N/A	N/A	0.22%

The fair value of collaterals held against loans and advances overdue but not impaired at December 31, 2017 amounted to RMB176 million. The fair value of collaterals held against loans and advances impaired at December 31, 2017 amounted to RMB604 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

As at December 31, 2018 and 2019 and March 31, 2020, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB396 million, RMB1,060 million and RMB2,974 million. The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB672 million, RMB1,362 million and RMB1,744 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

iii. Rescheduled loans and advances to customers

The Group has none of rescheduled loans and advances to customers at December 31, 2017, 2018 and 2019 and March 31, 2020.

iv. Credit rating

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments (exclusive interests accrued) analysed by the rating agency designations as at the end of the Track Record Period are as follows:

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Neither overdue nor impaired				
Ratings				
— AAA	10,961,675	10,147,361	12,578,521	12,382,799
— AA- to AA+	2,321,300	3,034,583	4,210,197	6,877,608
— below AA-	—	302,818	302,818	1,096,897
Sub-total	13,282,975	13,484,762	17,091,536	20,357,304
Unrated	35,194,311	37,552,497	36,256,173	40,484,986
Total	48,477,286	51,037,259	53,347,709	60,842,290

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The Group has especially built up a market risk management structure and team. The Department of Risk Management takes the major responsibility for the exposure of market risk and preparation of relevant market risk management policies to submit to the Committee of Risk Management. According to established standards and current management capabilities, the Group measures market risk with the major adoption of sensitivity analysis. Before the new products or new business are launched, their market risks will be identified according to regulations.

The major source of market risk of the Group is the asset and liability businesses involved in market operation and the risks in interest rate and exchange rate of products.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of bank assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury business' investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

(i) The following tables indicate the assets and liabilities as at the end of each of the Track Record Period by the expected next repricing dates or by maturity dates, depending on which is earlier:

The Group

	At December 31, 2017					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	19,149,521	209,599	18,939,922	—	—	—
Deposits with banks and other financial institutions	1,129,495	77,103	352,373	700,019	—	—
Placements with banks and other financial institutions	1,202,293	—	1,202,293	—	—	—
Financial assets held under resale agreements	15,058,130	—	14,633,130	425,000	—	—
Loans and advances to customers *(Note (i))*	64,797,414	945,580	39,971,940	17,492,014	5,466,775	921,105
Financial investments *(Note (ii))*	91,314,889	91,092	9,774,066	20,736,571	38,596,751	22,116,409
Other assets	11,846,179	2,935,803	557,023	1,881,531	6,409,304	62,518
Total assets	204,497,921	4,259,177	85,430,747	41,235,135	50,472,830	23,100,032
Liabilities						
Borrowing from the central bank	3,166,428	—	141,617	3,024,811	—	—
Deposits from banks and other financial Institutions	2,632,978	—	1,532,978	1,100,000	—	—
Placements from banks and other financial institutions	6,686,000	—	2,466,000	4,220,000	—	—
Financial assets sold under repurchase agreements	22,020,150	—	21,921,150	99,000	—	—
Deposits from customers	120,096,009	50,124,946	19,159,225	22,667,736	27,220,264	923,838
Debt securities issued	33,412,780	—	4,749,453	20,673,787	2,997,400	4,992,140
Other liabilities	5,412,469	2,959,196	394,043	1,584,824	467,351	7,055
Total liabilities	193,426,814	53,084,142	50,364,466	53,370,158	30,685,015	5,923,033
Asset-liability gap	11,071,107	(48,824,965)	35,066,281	(12,135,023)	19,787,815	17,176,999

	At December 31, 2018					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	18,464,800	—	18,464,800	—	—	—
Deposits with banks and other financial institutions	1,054,852	18,623	1,036,229	—	—	—
Placements with banks and other financial institutions	1,271,929	236,822	1,035,107	—	—	—
Financial assets held under resale agreements.	1,392,275	275	1,392,000	—	—	—
Loans and advances to customers *(Note (i))*.	73,316,504	659,740	15,141,188	30,796,569	12,731,131	13,987,876
Financial investments *(Note (iii))*	93,611,492	1,442,655	11,507,499	17,966,579	41,183,271	21,511,488
Other assets.	14,010,033	2,164,871	1,071,388	3,002,691	7,555,815	215,268
Total assets	203,121,885	4,522,986	49,648,211	51,765,839	61,470,217	35,714,632
Liabilities						
Borrowing from the central bank	3,648,371	1,443	1,093,455	2,253,473	300,000	—
Deposits from banks and other financial Institutions	7,431,004	57,784	6,303,220	1,070,000	—	—
Placements from banks and other financial institutions	10,461,498	110,428	2,901,570	7,449,500	—	—
Financial assets sold under repurchase agreements	5,762,553	4,899	5,757,654	—	—	—
Deposits from customers	117,469,732	1,685,235	62,575,788	21,559,969	30,484,197	1,164,543
Debt securities issued	42,942,514	275,631	14,098,442	21,579,652	1,995,694	4,993,095
Other liabilities	1,598,756	452,642	53,131	643,236	422,347	27,400
Total liabilities	189,314,428	2,588,062	92,783,260	54,555,830	33,202,238	6,185,038
Asset-liability gap	13,807,457	1,934,924	(43,135,049)	(2,789,991)	28,267,979	29,529,594

	At December 31, 2019					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	21,203,836	—	21,203,836	—	—	—
Deposits with banks and other financial institutions	2,026,908	62	2,026,846	—	—	—
Placements with banks and other financial institutions.	507,205	7,205	500,000	—	—	—
Financial assets held under resale agreements.	5,386,562	821	5,385,741	—	—	—
Loans and advances to customers *(Note (i))*.	90,111,642	831,559	12,466,432	31,142,896	26,817,397	18,853,358
Financial investments *(Note (iii))*	89,128,445	2,703,203	3,572,206	19,091,576	36,823,711	26,937,749
Other assets.	16,270,923	2,896,584	92,638	870,955	11,630,136	780,610
Total assets	224,635,521	6,439,434	45,247,699	51,105,427	75,271,244	46,571,717

	At December 31, 2019					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Liabilities						
Borrowing from the central bank	4,730,937	3,698	535,767	4,191,472	—	—
Deposits from banks and other financial Institutions	5,002,125	17,367	819,758	4,165,000	—	—
Placements from banks and other financial institutions	10,429,485	140,675	2,280,000	8,008,810	—	—
Financial assets sold under repurchase agreements	9,945,309	1,210	9,478,043	466,056	—	—
Deposits from customers	144,233,973	2,032,570	66,487,353	26,022,138	45,895,536	3,796,376
Debt securities issued	29,624,782	173,307	6,417,686	16,042,123	1,997,706	4,993,960
Other liabilities	2,745,412	2,305,918	29	32,075	362,310	45,080
Total liabilities	206,712,023	4,674,745	86,018,636	58,927,674	48,255,552	8,835,416
Asset-liability gap	17,923,498	1,764,689	(40,770,937)	(7,822,247)	27,015,692	37,736,301

	At March 31, 2020					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	19,256,136	—	19,256,136	—	—	—
Deposits with banks and other financial institutions	1,064,931	78	1,064,853	—	—	—
Placements with banks and other financial institutions	567,954	1,146	566,808	—	—	—
Loans and advances to customers *(Note (i))*	101,205,673	737,510	13,778,550	37,349,196	27,600,728	21,739,689
Financial investments *(Note (iii))*	94,904,620	2,785,281	6,739,177	12,127,350	43,281,847	29,970,965
Other assets	18,290,871	299,058	2,695,502	4,350,384	9,921,339	1,024,588
Total assets	235,290,185	3,823,073	44,101,026	53,826,930	80,803,914	52,735,242
Liabilities						
Borrowing from the central Bank	5,308,289	3,349	2,191,216	3,113,724	—	—
Deposits from banks and other financial Institutions	4,864,262	599,262	1,655,000	2,610,000	—	—
Placements from banks and other financial institutions	12,008,865	204,610	710,000	11,094,255	—	—
Financial assets sold under repurchase agreements	5,794,846	199	5,066,904	727,743	—	—
Deposits from customers	156,635,066	1,760,659	68,945,938	31,831,676	53,755,331	341,462
Debt securities issued	28,818,252	155,366	7,901,988	15,373,903	392,819	4,994,176
Other liabilities	3,706,125	467,429	1,104,810	1,076,395	972,655	84,836
Total liabilities	217,135,705	3,190,874	87,575,856	65,827,696	55,120,805	5,420,474
Asset-liability gap	18,154,480	632,199	(43,474,830)	(12,000,766)	25,683,109	47,314,768

Notes:

i. As at December 31, 2017, 2018 and 2019 and March 31, 2020, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB1,483.6 million, RMB2,217.2 million, RMB3,140.2 million and RMB3,157.7 million, respectively.

ii. Financial investments include financial investments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables.

iii. Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

The Group

	At December 31,			At March 31,
	2017	**2018**	**2019**	**2020**
Change in net profit				
Up 100 bps parallel shift in yield curves	185,104	192,203	295,298	103,662
Down 100 bps parallel shift in yield curves	(185,104)	(192,203)	(295,298)	(103,662)

The Group

	At December 31,			At March 31,
	2017	**2018**	**2019**	**2020**
Change in equity				
Up 100 bps parallel shift in yield curves	211,261	281,501	382,128	272,103
Down 100 bps parallel shift in yield curves	(211,261)	(281,501)	(382,128)	(272,103)

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

— Interest rate movements at the end of each of the Track Record Period apply to non-derivative financial instruments of the Group;

— At the end of each of the Track Record Period, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;

— There is a parallel shift in the yield curve with the changes in interest rates;

— There are no other changes to the assets and liabilities portfolio;

— Other variables (including exchange rates) remain unchanged; and

— The analysis does not take into account the effect of risk management measures taken by the management.

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

Foreign currency risk

The majority of the business of the Group is related to Renminbi, as well as a small amount of business related to US dollar and other foreign currencies.

The changes in exchange rates will affect the financial position and cash flow of the Group. Due to the small amount of foreign currency business of the Group, the effect of foreign currency risk on the Group would be immaterial. The major principle of the Group's control on foreign currency risk is to achieve matching of assets and liabilities in each currency and to conduct daily monitoring on currency exposure.

The Group adopts sensitivity analysis to measure the possible effects of changes in exchange rates on net gains and losses and interests of the Group. As the foreign currency assets and liabilities account for an immaterial part of the total assets and total liabilities of the Group, the effect of changes in exchange rates on net gains and losses and interests of the Group would be immaterial.

The currency exposures as at the end of each of the Track Record Period are as follows:

The Group

	At December 31, 2017			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	19,080,193	69,328	—	19,149,521
Deposits with banks and other financial institutions	980,954	145,358	3,183	1,129,495
Placements with banks and other financial institutions	—	1,202,293	—	1,202,293
Financial assets held under resale agreements	15,058,130	—	—	15,058,130
Loans and advances to customers	64,596,731	200,683	—	64,797,414
Financial investments *(Note (i))*	91,314,889	—	—	91,314,889
Other assets	11,841,493	4,686	—	11,846,179
Total assets	202,872,390	1,622,348	3,183	204,497,921
Liabilities				
Borrowing from the central bank	3,166,428	—	—	3,166,428
Deposits from banks and other financial Institutions	2,632,978	—	—	2,632,978
Placements from banks and other financial institutions	6,686,000	—	—	6,686,000
Financial assets sold under repurchase agreements	22,020,150	—	—	22,020,150
Deposits from customers	118,646,266	1,446,567	3,176	120,096,009
Debt securities issued	33,412,780	—	—	33,412,780
Other liabilities	5,275,512	137,364	—	5,412,876
Total liabilities	191,840,114	1,583,931	3,176	193,427,221
Net position	11,032,276	38,417	7	11,070,700
Off-balance sheet credit commitments	27,980,429	742,978	22,378	28,745,785

	At December 31, 2018			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	18,412,571	52,229	—	18,464,800
Deposits with banks and other financial institutions	754,440	299,671	741	1,054,852
Placements with banks and other financial institutions	307,648	964,281	—	1,271,929
Financial assets held under resale agreements	1,392,275	—	—	1,392,275
Loans and advances to customers	73,182,987	133,517	—	73,316,504
Financial investments *(Note (ii))*	93,611,492	—	—	93,611,492
Other assets	14,006,256	3,780	—	14,010,036
Total assets	201,667,669	1,453,478	741	203,121,888
Liabilities				
Borrowing from the central bank	3,648,371	—	—	3,648,371
Deposits from banks and other financial Institutions	7,431,004	—	—	7,431,004
Placements from banks and other financial institutions	10,461,498	—	—	10,461,498
Financial assets sold under repurchase agreements	5,762,553	—	—	5,762,553
Deposits from customers	116,389,857	1,079,126	749	117,469,732
Debt securities issued	42,942,514	—	—	42,942,514
Other liabilities	1,284,658	314,098	—	1,598,756
Total liabilities	187,920,455	1,393,224	749	189,314,428
Net position	13,747,214	60,254	(8)	13,807,460
Off-balance sheet credit commitments	23,406,537	701,598	32,434	24,140,569

	At December 31, 2019			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	21,127,565	76,271	—	21,203,836
Deposits with banks and other financial institutions	206,352	1,818,707	1,849	2,026,908
Placements with banks and other financial institutions	507,205	—	—	507,205
Financial assets held under resale agreements	5,386,562	—	—	5,386,562
Loans and advances to customers	89,721,259	390,383	—	90,111,642
Financial Investments *(Note (ii))*	89,128,445	—	—	89,128,445
Other assets	16,270,923	—	—	16,270,923
Total assets	222,348,311	2,285,361	1,849	224,635,521

	At December 31, 2019			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Liabilities				
Borrowing from the central bank	4,730,937	—	—	4,730,937
Deposits from banks and other financial Institutions	5,002,125	—	—	5,002,125
Placements from banks and other financial institutions	10,080,675	348,810	—	10,429,485
Financial assets sold under repurchase agreements	9,945,309	—	—	9,945,309
Deposits from customers	142,460,053	1,772,192	1,728	144,233,973
Debt securities issued	29,624,782	—	—	29,624,782
Other liabilities	2,581,343	164,003	66	2,745,412
Total liabilities	204,425,224	2,285,005	1,794	206,712,023
Net position	17,923,087	356	55	17,923,498
Off-balance sheet credit commitments	27,023,880	278,137	58,188	27,360,205

	At March 31, 2020			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central Bank	19,171,781	84,355	—	19,256,136
Deposits with banks and other financial institutions	261,726	800,219	2,986	1,064,931
Placements with banks and other financial institutions	—	567,954	—	567,954
Loans and advances to customers	100,791,939	413,734	—	101,205,673
Financial investments *(Note (ii))*	94,904,620	—	—	94,904,620
Other assets	18,290,871	—	—	18,290,871
Total assets	233,420,937	1,866,262	2,986	235,290,185
Liabilities				
Borrowing from the central bank	5,308,289	—	—	5,308,289
Deposits from banks and other financial Institutions	4,864,262	—	—	4,864,262
Placements from banks and other financial institutions	11,654,610	354,255	—	12,008,865
Financial assets sold under repurchase agreements	5,794,846	—	—	5,794,846
Deposits from customers	155,280,029	1,352,185	2,852	156,635,066
Debt securities issued	28,818,252	—	—	28,818,252
Other liabilities	3,539,371	166,626	128	3,706,125
Total liabilities	215,259,659	1,873,066	2,980	217,135,705
Net position	18,161,278	(6,804)	6	18,154,480
Off-balance sheet credit commitments	29,505,350	184,687	365,927	30,055,964

Notes:

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

(ii) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, financial investments measured at amortised cost.

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations.

The Group plays an active part in managing liquidity risks and improves related management system in terms of organisation, institution, system, management and mechanism. The organisational structure of the Group's liquidity risk management consists of the Board of Directors, senior management and its Risk Management Committee and Asset and Liability Management Committee, Risk Management Department, Financial Planning Department, Corporate Banking Department, Retail Banking Department, Department of Credit Approval, Department of Financial Market, Information Technology and Audit Department, responsible for formulating liquidity risk management strategy and establishing internal control mechanism to support the implementation and supervision of liquidity risk management strategy.

The measurement of liquidity risk of the Group adopts liquidity indicator and cash flow gap calculation. By stress testing, the Group sets up mild, moderate and severe scenarios to examine the capacity to withstand liquidity or liquidity crises and improve liquidity contingency measures. In terms of response to liquidity risks, the Group: strengthens management and monitoring of liquidity limits; establishes related liquidity emergency leading groups, early-warning indicators for internal and external liquidity risks and indicators that could trigger contingency plans and monitors these indicators; builds up quality liquidity assets reserve and financing capability management; erects liquidity risk reporting mechanism, in which the Financial Planning Department reports to the Asset and Liability Management Committee, senior management and the Board of Directors on issues related to the status, stress testing and contingency plans of liquidity risks on a regular basis.

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of each of the Track Record Period:

	At December 31, 2017							
	Indefinite	**Repayable on demand**	**Within one month**	**Between one month and three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Total**
	Note (i)							
Assets								
Cash and deposits with the central bank	—	19,149,521	—	—	—	—	—	19,149,521
Deposit with banks and other financial institutions	—	429,476	—	—	700,019	—	—	1,129,495
Placements with banks and other financial institutions	—	—	744,899	457,394	—	—	—	1,202,293
Financial assets held under resale agreements	—	—	14,633,130	—	425,000	—	—	15,058,130
Loans and advances to customers	—	945,580	35,776,544	4,195,396	17,492,014	5,466,775	921,105	64,797,414
Financial investments	383,982	50,000	4,616,069	4,815,107	20,736,571	38,596,751	22,116,409	91,314,889
Others	916,149	—	275,609	468,958	2,432,756	7,225,270	527,437	11,846,179
Total assets	1,300,131	20,574,577	56,046,251	9,936,855	41,786,360	51,288,796	23,564,951	204,497,921

	At December 31, 2017							
	Indefinite *Note (i)*	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Liabilities								
Borrowing from the central bank	—	—	24,995	116,622	3,024,811	—	—	3,166,428
Deposits from banks and other financial Institutions	—	1,426,978	106,000	—	1,100,000	—	—	2,632,978
Placements from banks and other financial institutions	—	—	1,016,000	1,450,000	4,220,000	—	—	6,686,000
Financial assets sold under repurchase agreements	—	—	17,732,250	4,188,900	99,000	—	—	22,020,150
Deposit from customers	—	50,124,946	8,277,866	10,881,359	22,667,736	27,220,264	923,838	120,096,009
Debt securities issued	—	—	13,976,919	9,956,648	1,489,673	7,989,540	—	33,412,780
Others	—	85,070	727,650	235,215	1,950,146	2,135,094	279,294	5,412,469
Total liabilities	—	51,636,994	41,861,680	26,828,744	34,551,366	37,344,898	1,203,132	193,426,814
Net position	1,300,131	(31,062,417)	14,184,571	(16,891,889)	7,234,994	13,943,898	22,361,819	11,071,107

	At December 31, 2018							
	Indefinite *Note (i)*	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	—	18,464,800	—	—	—	—	—	18,464,800
Deposit with banks and other financial institutions	—	554,852	—	—	500,000	—	—	1,054,852
Placements with banks and other financial institutions	—	7,649	934,846	301,981	27,453	—	—	1,271,929
Financial assets held under resale agreements	—	—	1,390,630	1,645	—	—	—	1,392,275
Loans and advances to customers	—	1,193,443	3,973,725	10,366,021	30,986,018	12,785,317	14,011,980	73,316,504
Financial investments	71,105	347,717	5,185,516	6,104,385	18,118,933	41,851,321	21,932,515	93,611,492
Others	1,214,931	—	325,871	767,717	3,262,689	7,862,174	576,651	14,010,033
Total assets	1,286,036	20,568,461	11,810,588	17,541,749	52,895,093	62,498,812	36,521,146	203,121,885
Liabilities								
Borrowing from the central bank	—	—	1,010,226	84,672	2,253,473	300,000	—	3,648,371
Deposits from banks and other financial Institutions	—	5,126,613	1,234,387	4	1,070,000	—	—	7,431,004
Placements from banks and other financial institutions	—	—	1,111,998	1,900,000	7,449,500	—	—	10,461,498
Financial assets sold under repurchase agreements	—	—	5,762,553	—	—	—	—	5,762,553
Deposit from customers	—	47,547,095	7,802,082	8,911,846	21,559,969	30,484,197	1,164,543	117,469,732
Debt securities issued	—	275,631	12,075,306	3,653,654	16,949,919	9,988,004	—	42,942,514
Others	55,842	164,007	161,488	173,527	451,946	562,969	28,977	1,598,756
Total liabilities	55,842	53,113,346	29,158,040	14,723,703	49,734,807	41,335,170	1,193,520	189,314,428
Net position	1,230,194	(32,544,885)	(17,347,452)	2,818,046	3,160,286	21,163,642	35,327,626	13,807,457

	At December 31, 2019							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
	Note (i)							
Assets								
Cash and deposits with the central bank	—	21,203,836	—	—	—	—	—	21,203,836
Deposit with banks and other financial institutions	—	2,026,908	—	—	—	—	—	2,026,908
Placements with banks and other financial institutions	—	7,205	500,000	—	—	—	—	507,205
Financial assets held under resale agreements	—	—	5,386,562	—	—	—	—	5,386,562
Loans and advances to customers	—	1,399,639	5,896,249	6,097,317	37,155,685	20,674,930	18,887,822	90,111,642
Financial investments	488,165	—	1,744,192	2,787,121	19,260,918	37,393,689	27,454,360	89,128,445
Others	1,673,910	9,275	392,256	844,068	4,021,833	8,534,928	794,653	16,270,923
Total assets	2,162,075	24,646,863	13,919,259	9,728,506	60,438,436	66,603,547	47,136,835	224,635,521
Liabilities								
Borrowing from the central bank	—	—	33,669	505,796	4,191,472	—	—	4,730,937
Deposits from banks and other financial Institutions	—	795,125	—	42,000	4,165,000	—	—	5,002,125
Placements from banks and other financial institutions	—	—	2,420,675	8,008,810	—	—	—	10,429,485
Financial assets sold under repurchase agreements	—	—	9,143,123	336,130	466,056	—	—	9,945,309
Deposit from customers	—	50,696,923	7,384,333	10,438,667	26,022,138	45,895,536	3,796,376	144,233,973
Debt securities issued	—	173,307	1,909,284	8,862,906	11,687,619	6,991,666	—	29,624,782
Others	66,427	458,831	58,896	488,544	497,177	896,538	278,999	2,745,412
Total liabilities	66,427	52,124,186	20,949,980	28,682,853	47,029,462	53,783,740	4,075,375	206,712,023
Net position	2,095,648	(27,477,323)	(7,030,721)	(18,954,347)	13,408,974	12,819,807	43,061,460	17,923,498

	At March 31, 2020							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
	Note (i)							
Assets								
Cash and deposits with the central bank	—	19,256,136	—	—	—	—	—	19,256,136
Deposit with banks and other financial institutions	—	1,064,931	—	—	—	—	—	1,064,931
Placements with banks and other financial institutions	—	1,146	354,255	212,553	—	—	—	567,954
Loans and advances to customers	—	1,662,920	4,769,794	8,083,346	37,349,196	27,600,728	21,739,689	101,205,673
Financial investments	1,091,094	—	1,803,969	5,088,357	12,245,106	44,103,094	30,573,000	94,904,620
Others	268,722	30,336	1,585,464	1,110,038	4,350,384	9,921,339	1,024,588	18,290,871
Total assets	1,359,816	22,015,469	8,513,482	14,494,294	53,944,686	81,625,161	53,337,277	235,290,185
Liabilities								
Borrowing from the central bank	—	3,350	400,000	1,791,216	3,113,723	—	—	5,308,289
Deposits from banks and other financial Institutions	—	589,262	10,000	1,655,000	2,610,000	—	—	4,864,262
Placements from banks and other financial institutions	—	204,610	—	710,000	11,094,255	—	—	12,008,865
Financial assets sold under repurchase agreements	—	199	4,502,950	563,954	727,743	—	—	5,794,846
Deposit from customers	—	53,082,356	8,706,788	7,940,592	32,193,548	54,366,438	345,344	156,635,066
Debt securities issued	—	155,366	1,198,074	6,703,914	15,373,903	392,819	4,994,176	28,818,252
Others	65,431	401,999	80,686	1,024,124	1,076,395	972,655	84,835	3,706,125
Total liabilities	65,431	54,437,142	14,898,498	20,388,800	66,189,567	55,731,912	5,424,355	217,135,705
Net position	1,294,385	(32,421,673)	(6,385,016)	(5,894,506)	(12,244,881)	25,893,249	47,912,922	18,154,480

Note:

(i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents impaired investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities of the Group at the end of the Track Record Period:

	At December 31, 2017							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	3,166,428	3,214,686	—	1,025,000	131,044	2,058,642	—	—
Deposits from banks and other financial institutions	2,632,978	2,679,429	1,426,978	107,176	—	1,145,275	—	—
Placements from banks and other financial institutions	6,686,000	6,964,734	—	1,025,473	1,501,969	4,437,292	—	—
Financial assets sold under repurchase agreements	22,020,150	22,119,465	—	18,088,824	3,930,014	100,627	—	—
Deposits from customers	120,096,009	126,140,087	52,647,587	8,694,467	11,428,986	23,808,536	29,560,511	—
Debt securities issued	33,412,780	34,160,000	—	1,500,000	3,290,000	21,370,000	3,000,000	5,000,000
Other financial liabilities	2,844,716	2,844,716	391,443	243,220	150,823	1,584,824	467,351	7,055
Total non-derivative financial liabilities	190,859,061	198,123,117	54,466,008	30,684,160	20,432,836	54,505,196	33,027,862	5,007,055

	At December 31, 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	3,648,371	3,694,820	—	1,015,787	99,812	2,579,221	—	—
Deposits from banks and other financial institutions	7,431,004	7,579,760	1,835,220	3,304,518	252,895	2,187,127	—	—
Placements from banks and other financial institutions	10,461,498	10,704,040	—	1,004,787	1,950,654	7,748,599	—	—
Financial assets sold under repurchase agreements	5,762,553	5,765,741	—	5,765,741	—	—	—	—
Deposits from customers	117,469,732	121,611,588	43,619,272	9,818,772	8,993,488	22,814,237	36,365,819	—
Debt securities issued	42,942,514	43,060,000	—	9,250,000	6,780,000	17,030,000	5,000,000	5,000,000
Other financial liabilities	1,206,143	1,206,143	60,029	478	52,653	643,236	422,347	27,400
Total non-derivative financial liabilities	188,921,815	193,622,092	45,514,521	30,160,083	18,129,502	53,002,420	41,788,166	5,027,400

	At December 31, 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	4,730,937	4,809,241	—	95,801	96,888	4,616,552	—	—
Deposits from banks and other financial institutions	5,002,125	5,708,432	706,307	1,160,989	3,841,136	—	—	—
Placements from banks and other financial institutions	10,429,485	10,661,235	—	239,216	2,024,014	8,398,005	—	—
Financial assets sold under repurchase agreements	9,945,309	9,952,917	—	9,145,417	337,500	470,000	—	—
Deposits from customers	144,233,973	147,262,239	47,086,608	9,236,638	10,626,144	27,703,422	52,609,427	—
Debt securities issued	29,624,782	29,810,000	—	700,000	5,750,000	16,360,000	2,000,000	5,000,000
Other financial liabilities	1,341,011	1,341,011	901,546	—	—	32,075	362,310	45,080
Total non-derivative financial liabilities	205,307,622	209,545,075	48,694,461	20,578,061	22,675,682	57,580,054	54,971,737	5,045,080

	At March 31, 2020							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	5,308,289	5,375,951	3,350	400,000	1,767,017	3,205,584	—	—
Deposits from banks and other financial institutions	4,864,262	5,308,780	894,568	18,626	1,691,508	2,704,078	—	—
Placements from banks and other financial institutions	12,008,865	12,010,958	—	1,656,719	3,441,461	6,912,778	—	—
Financial assets sold under repurchase agreements	5,794,846	6,526,892	199	—	5,798,950	727,743	—	—
Deposits from customers	154,874,408	164,905,931	51,100,803	10,090,616	7,940,130	33,685,494	62,088,888	—
Debt securities issued	28,818,252	28,970,000	—	1,200,000	6,740,000	15,630,000	400,000	5,000,000
Other financial liabilities	1,668,465	1,668,465	401,793	77,635	208,356	526,602	446,779	7,300
Total non-derivative financial liabilities	213,337,387	224,766,977	52,400,713	13,443,596	27,587,422	63,392,279	62,935,667	5,007,300

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group has specified issues of operational risks, including its manifestation, management mode, reporting procedure, reporting cycle and statistics of loss and improved comprehensive risk management system, with major initiatives as follows:

— Establishment of operational risk management system in a crisscrossing manner. On the one hand, the Group establishes an operational risk management framework that is compatible with its nature, scale, complexity and risk characteristics, including the operational risk management mechanism that involves its board of directors, board of supervisors, senior management, head office and branches. On the other hand, a three-tier risk prevention system for the front office, middle office and back office has been established for every major risk faced by the Group.

— Formation of business philosophy of compliance and robustness. The Group fosters favourable control environment, including constant advances and promotion in operational risk culture by the board of directors and senior management.

— Preference to low operational risk under the framework of 'robust' risk preference. By conducting controls on operational risk including identification, measurement, resolution, monitoring and reporting, the Group establishes mechanisms for risk avoidance, loss prediction, prevention, control, reduction, to control operational risk within the carrying capacity of the Group and maximise its profits.

— Prevention of operational risks based on the means of inspection and supervision. All departments and branches of the head office actively perform their duties of supervision and management, conduct routine and special inspections on operational risks in major businesses, establish ledger of all problems identified for rectification and check-off. Based on the inspection by departments, the internal audit department fully uses the off-site audit system, business risk early-warning system and remote monitoring system to detect violations and pay constant attention to risk-prone problems to prevent operational risks. In the meantime, inspections and investigations are exercised on key businesses, key institutions and key personnel to prevent operational risks.

— Combination of punishment and incentives to encourage compliance and standard operations. Integral management will be implemented on personnel violating operational standards for strict ascertainment of responsibility; employees are encouraged to spontaneously disclose and actively report operational risks; internal management, compliance operation, inspection and supervision and swindle prevention and control of the head office and branches shall be quantitatively assessed for penalty points; innovative implementation of compliance and internal control management of institutions shall be assessed for bonus points.

— Substantive achievements in carrying out system training and improving staff operation skills have been effective in preventing operational risks for the Group.

42. FAIR VALUE

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the Track Record Period. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the Track Record Period.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the Track Record Period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the Track Record Period.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank, receivables with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBoC rates. Accordingly, the carrying amounts approximate the fair values.

Available-for-sale investments, financial investments at fair value through other comprehensive income and financial assets at fair value through profit or loss are stated at fair value. The carrying amount and fair value of held-to-maturity investments are disclosed in Note 19. Financial investments at amortised cost and the carrying amounts of investments classified as receivables are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

(ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

The book value and fair value of debt securities issued is presented in Note 31. The carrying amounts of other financial liabilities approximate their fair value.

(c) Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the Track Record Period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

— Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

— Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and exchange rate. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

The Group

	At December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss				
— debt instrument investment	—	5,362,537	—	5,362,537
Available-for-sale financial assets at FVOCI				
— debt instrument investment	—	3,487,584	—	3,487,584
Total	—	8,850,121	—	8,850,121

	At December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss				
— debt securities	—	5,669,635	—	5,669,635
— investment funds	—	769,732	—	769,732
— wealth management products	—	—	1,115,121	1,115,121
— investment management products	—	—	15,454,247	15,454,247
Financial investments at fair value through other comprehensive income				
— debt securities	—	12,219,466	—	12,219,466
— equity investments	—	—	71,105	71,105
— interbank deposits	—	6,230,291	—	6,230,291
Total	—	24,889,124	16,640,473	41,529,597

	At December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss				
— debt securities	—	3,928,107	—	3,928,107
— investment funds	—	699,876	—	699,876
— wealth management products	—	—	1,019,544	1,019,544
— investment management products	—	—	12,859,617	12,859,617
Financial investments at fair value through other comprehensive income				
— debt securities	—	11,855,022	—	11,855,022
— equity investments	—	—	195,586	195,586
— assets backed securities	—	80,761	—	80,761
— interbank deposits	—	1,767,820	—	1,767,820
Total	—	18,331,586	14,074,747	32,406,333

	At March 31, 2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss				
— debt securities	—	2,983,179	—	2,983,179
— investment funds	—	710,125	—	710,125
— assets-backed securities	—	425,023	—	425,023
— wealth management products	—	—	506,734	506,734
— investment management products	—	—	13,122,008	13,122,008
Financial investments at fair value through other comprehensive income				
— debt securities	—	22,979,115	—	22,979,115
— equity investments	—	—	193,658	193,658
— assets-backed securities	—	81,886	—	81,886
— interbank deposits	—	1,140,998	—	1,140,998
Total	—	28,320,326	13,822,400	42,142,726

There is no transfer between levels of fair value hierarchy during the year ended December 31, 2017.

The movement during the year ended December 31, 2018 in the balance of Level 3 fair value measurements is as follows:

	January 1, 2018	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				December 31, 2018	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year
	(Note)			Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements		
Assets											
Financial investments at fair value through profit or loss											
— wealth management products	510,873	—	—	4,248	—	600,000	—	—	—	1,115,121	150
— investment management products	23,622,269	—	—	1,096,632	—	11,341,716	—	(19,757,162)	(849,208)	15,454,247	(26,812)
Financial investments at fair value through other comprehensive income											
— equity investments	91,092	—	—	—	(555)	—	—	(19,432)	—	71,105	—
Total	24,224,234	—	—	1,100,880	(555)	11,941,716	—	(19,776,594)	(849,208)	16,640,473	(26,662)

Note: The Group has adopted IFRS 9 from January 1, 2018. According to the classification and measurement requirements under IFRS 9, the financial instruments in Level 3 fair value hierarchy have been reclassified and measured on January 1, 2018 (see Note 2(1)(a)).

The movement during the year ended December 31, 2019 in the balance of Level 3 fair value measurements is as follows:

	January 1, 2019	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				December 31, 2019	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements		
Assets											
Financial investments at fair value through profit or loss											
— wealth management products	1,115,121	—	—	19,393	—	1,000,000	—	(1,100,000)	(14,970)	1,019,544	(13)
— investment management products	15,454,247	—	—	945,301	—	5,703,774	—	(8,280,118)	(963,587)	12,859,617	(18,519)
Financial investments at fair value through other comprehensive income											
— equity investments	71,105	—	—	—	—	124,481	—	—	—	195,586	—
Total	16,640,473	—	—	964,694	—	6,828,255	—	(9,380,118)	(978,557)	14,074,747	(18,532)

The movement during the three months ended March 31, 2020 in the balance of Level 3 fair value measurements is as follows:

	January 1, 2020	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				March 31, 2020	Unrealised gains or losses for the period included in profit or loss for assets and liabilities held at the end of the period
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements		
Assets											
Financial investments at fair value through profit or loss											
— wealth management products	1,019,544	—	—	8,726	—	—	—	(521,536)	—	506,734	109
— investment management products	12,859,617	—	—	201,264	—	1,570,000	—	(1,414,408)	(94,465)	13,122,008	(28,132)
Financial investments at fair value through other comprehensive income											
— equity investments	195,586	—	—	—	(1,928)	—	—	—	—	193,658	—
Total	14,074,747	—	—	209,990	(1,928)	1,570,000	—	(1,935,944)	(94,465)	13,822,400	(28,023)

During each of the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, there were no significant transfers among instruments in Level 1, Level 2 and Level 3 of the Group.

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised are within Level 3.

Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at December 31, 2018 The Group and the Bank	Valuation techniques	Unobservable input
Financial investments at fair value through profit or loss			
— wealth management products	1,115,121	Discounted cash flow	Risk-adjusted discount rate, cash flow
— investment management products	15,454,247	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments at fair value through other comprehensive income			
— equity investments	71,105	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at December 31, 2019 The Group and the Bank	Valuation techniques	Unobservable input
Financial investments at fair value through profit or loss			
— wealth management products	1,019,544	Discounted cash flow	Risk-adjusted discount rate, cash flow
— investment management products	12,859,617	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments at fair value through other comprehensive income			
— equity investments	195,586	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at March 31, 2020 The Group and the Bank	Valuation techniques	Unobservable input
Financial investments at fair value through profit or loss			
— wealth management products	506,734	Discounted cash flow	Risk-adjusted discount rate, cash flow
— investment management products	13,122,008	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments at fair value through other comprehensive income			
— equity investments	193,658	Discounted cash flow	Risk-adjusted discount rate, cash flow

During the years ended December 31, 2018 and 2019 and the three months ended March 31, 2020, there were no significant change in the valuation techniques.

As at December 31, 2018 and 2019 and March 31, 2020, unobservable inputs such as risk-adjusted discount rate and cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly equity investments, wealth management products and investment management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

The sensitivity of the fair value on changes in unobservable inputs for Level 3 financial instruments is measured at fair value on an ongoing basis.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 1 percent of change in fair value to reasonably possible alternative assumptions.

The Group and the Bank

	At December 31, 2018			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets at fair value through profit or loss				
— wealth management products	8,363	(8,363)	—	—
— investment management products	115,907	(115,907)	—	—
Financial investments at fair value through other comprehensive income				
— equity investments	—	—	533	(533)

	At December 31, 2019			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets at fair value through profit or loss				
— wealth management products	7,647	(7,647)	—	—
— investment management products	96,447	(96,447)	—	—
Financial investments at fair value through other comprehensive income				
— equity investments	—	—	1,467	(1,467)

	At March 31, 2020			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets at fair value through profit or loss				
— wealth management products	3,801	(3,801)	—	—
— investment management products	98,415	(98,415)	—	—
Financial investments at fair value through other comprehensive income				
— equity investments	—	—	1,452	(1,452)

43. TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group only acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statements of financial position. Surplus funding is accounted for as deposits from customers.

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Entrusted loans	21,398,978	18,179,849	12,325,075	12,680,260
Entrusted funds	21,398,978	18,179,849	12,325,075	12,680,260

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including bonds and funds. The Group initiated the launch of wealth management products. The investment risk associated with these products is borne by the customers who invest in these products. The Group does not consolidate these wealth management products. The Group earns commission which represents the charges on customers in relation to the provision of sales and management services. The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the consolidated statement of financial position. At the end of the each Track Record Period, funds received from customers under unconsolidated non-principal-guaranteed wealth management services were as follows:

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Funds received from customers under wealth management services	12,557,522	18,018,119	20,123,662	20,224,907

44. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's credit commitments take the form of bank acceptances, letters of credit, financial guarantees and credit card commitments.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Acceptances	25,721,383	21,306,916	24,142,358	27,049,576
Letters of credit	2,377,060	2,046,155	1,796,711	1,563,806
Letters of guarantees	393,394	269,296	240,116	211,005
Credit card commitments	253,947	518,202	1,181,020	1,231,577
Total	28,745,784	24,140,569	27,360,205	30,055,964

The Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount for credit commitments

The Group and the Bank

	At December 31,			At March 31,
	2017	2018	2019	2020
Credit risk-weighted amounts	10,413,497	8,164,534	6,761,025	6,401,226

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.

(c) Operating lease commitments

As at December 31, 2017 and 2018, the Group's and the Bank's future minimum lease payments under non-cancellable operating leases for properties are as follows:

The Group

	At December 31,	
	2017	2018
Within one year (inclusive)	101,165	106,617
More than one year but within two years (inclusive)	93,554	88,764
More than two years but within three years (inclusive)	90,449	83,605
More than three years but within five years (inclusive)	114,414	132,858
More than five years	117,830	102,695
Total	517,412	514,539

The Bank

	At December 31,	
	2017	2018
Within one year (inclusive)	101,165	102,313
More than one year but within two years (inclusive)	93,554	88,764
More than two years but within three years (inclusive)	90,449	83,605
More than three years but within five years (inclusive)	114,414	132,858
More than five years	117,830	102,695
Total	517,412	510,235

(d) Capital commitments

As at the end of each of the Track Record Period, the Group's and the Bank's authorised capital commitments are as follows:

	At December 31,			At March 31,
	2017	2018	2019	2020
Property and equipment				
— Contracted but not provided for	6,597	7,240	7,451	380
Intangible assets				
— Contracted but not provided for	17,751	15,387	20,047	21,323
Total	24,348	22,627	27,498	21,703

(e) Outstanding litigations and disputes

As at December 31, 2017, 2018 and 2019 and March 31, 2020, the Group and the Bank had not identified any outstanding litigations and disputes which the Group and the Bank as defendant with an estimated gross amounts larger than RMB10 million. The Group has assessed the impact of the above outstanding litigation and disputes that may lead to an outflow of economic benefits. According to the opinion of the Group's internal lawyers and external lawyers, it is unlikely for the Group to receive unfavorable ruling in these cases. Therefore, the Group don't recognised the litigation provision at the balance sheet date. Directors of the Bank are of the view that these litigations will not have any material adverse effect on the Group's business, financial condition, results of operations or prospects.

45. SUBSEQUENT EVENTS

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, the prevention and control of the COVID-19 has been going on throughout the country. The Group will earnestly implement the requirements of the Notice on Further Strengthening Financial Support for Prevention and Control of COVID-19, which was issued by the PBoC, the Ministry of Finance, the CBIRC, China Securities Regulatory Commission and State Administration of Foreign Exchange, and strengthen financial support for the epidemic prevention and control.

As at the date of this report, given the severity of the COVID-19 outbreak in Shandong Province and in Tianjin Municipality, at this stage, the directors of the Group consider that the pandemic have only an immaterial impact on its business operation, liquidity position, asset quality and the maturity profile of the loan portfolio based on the following reasons: (i) since March 2020, industries and enterprises in Shandong Province, Tianjin Municipality as well as in the PRC have gradually resumed operations and productions; (ii) the COVID-19 outbreak was less severe in Shandong Province and Tianjin Municipality compared to Hubei Province and since March 2020, Shandong Province and Tianjin Municipality have reported a decrease in confirmed infections cases; (iii) the Group had not experienced any material interruptions to its business operations and all of outlets in Shandong Province and Tianjin Municipality had resumed business operations since March 2020.

The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Bank and its subsidiary in respect of any period subsequent to March 31, 2020.

The following is the text of a report set out on pages II-1 to II-2 received from the reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. The information set out on pages II-3 to II-7 is the unaudited condensed consolidated interim financial information of the Group for the six months ended June 30, 2020, and does not form part of the Accountants' Report from the reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included herein for information purpose only.

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

TO THE DIRECTORS OF WEIHAI CITY COMMERCIAL BANK CO., LTD.
(incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the condensed consolidated interim financial statements set out on pages II-3 to II-7, which comprises the condensed consolidated statements of financial position of Weihai City Commercial Bank Co., Ltd. (the "Bank") and its subsidiary (together the "Group") as at June 30, 2020, and the related condensed consolidated statements of profit or loss and other comprehensive income, the condensed consolidated statements of changes in equity and the condensed consolidated statements of cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed consolidated financial information"). The directors are responsible for the preparation and presentation of the interim condensed consolidated financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), issued by the International Accounting Standard Board. Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants. A review of interim 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 Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As explained in Note 1 to the interim condensed consolidated financial information, the interim condensed consolidated financial information does not contain all the minimum disclosures of interim financial information required by IAS 34. It is not practical for us to quantify the extent of this omission.

Qualified Conclusion

Based on our review, with the exception of the matter described in the "Basis for Qualified Conclusion" paragraph above, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information are not prepared, in all material respects, in accordance with IAS 34.

BDO Limited
Certified Public Accountants
Chan Wing Fai
Practising Certificate no. P05443

Hong Kong
September 29, 2020

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2020	**2019**
Interest income	5,157,551	4,298,575
Interest expense	(3,186,858)	(2,748,629)
Net interest income	1,970,693	1,549,946
Fee and commission income	286,781	230,507
Fee and commission expense	(27,934)	(96,622)
Net fee and commission income	258,847	133,885
Net trading (losses)/gains	(98,532)	43,883
Net gains arising from investment securities	888,575	681,148
Other operating income	6,108	5,289
Operating income	3,025,691	2,414,151
Operating expenses	(685,985)	(677,943)
Impairment losses on assets	(1,250,045)	(710,666)
Profit before tax	1,089,661	1,025,542
Income tax	(207,435)	(187,015)
Net profit for the period	882,226	838,527
Net profit for the period attributable to:		
Equity shareholders of the Bank	814,315	791,390
Non-controlling interests	67,911	47,137
	882,226	838,527
Other comprehensive income for the period:		
Items that may be reclassified subsequently to profit or loss:		
Financial assets at fair value through other comprehensive income:		
— net movement in the fair value reserve, net of tax	(167,734)	(29,893)
— net movement in the impairment reserve, net of tax	7,498	1,692
Items that will not be reclassified subsequently to profit or loss:		
Financial assets at fair value through other comprehensive income:		
— net movement in the fair value reserve, net of tax	(5,237)	—
Other comprehensive income for the period, net of tax	(165,473)	(28,201)
Total comprehensive income for the period	716,753	810,326
Total comprehensive income for the period attributable to:		
Equity shareholders of the Bank	648,842	763,189
Non-controlling interests	67,911	47,137
	716,753	810,326
Basic and diluted earnings per share (in RMB)	0.16	0.16

Condensed Consolidated Statements of Financial Position

(Expressed in thousands of Renminbi, unless otherwise stated)

	At June 30, 2020	At December 31, 2019
Assets		
Cash and deposits with the central bank	21,607,966	21,203,836
Deposits with banks and other financial institutions	1,177,216	2,026,908
Placements with banks and other financial institutions	1,253,457	507,205
Financial assets held under resale agreements	1,398,391	5,386,562
Loans and advances to customers	105,823,108	90,111,642
Financial investments:		
Financial investments at fair value through profit or loss	19,367,458	18,507,144
Financial investments at fair value through other comprehensive income	30,544,431	13,899,189
Financial investments at amortised cost	54,919,899	56,722,112
Property and equipment	680,475	705,505
Right-of-use assets	470,367	476,851
Deferred tax assets	1,252,425	957,751
Other assets	17,070,180	14,130,816
Total assets	255,565,373	224,635,521
Liabilities and equity		
Liabilities		
Borrowing from the central bank	7,332,905	4,730,937
Deposits from banks and other financial institutions	3,319,136	5,002,125
Placements from banks and other financial institutions	13,633,935	10,429,485
Financial assets sold under repurchase agreements	10,279,732	9,945,309
Deposits from customers	169,138,693	144,233,973
Income tax payable	339,265	379,031
Debt securities issued	30,598,187	29,624,782
Lease liabilities	447,596	448,682
Deferred tax liabilities	1,392	5,168
Other liabilities	2,234,101	1,912,531
Total liabilities	237,324,942	206,712,023
Equity		
Share capital	4,971,197	4,971,197
Capital reserve	3,112,322	3,119,964
Surplus reserve	1,089,080	1,089,080
General reserve	2,293,035	2,079,232
Fair value reserve	(202,802)	(29,831)
Impairment reserve	16,653	9,155
Retained earnings	3,263,974	3,160,582
Total equity attributable to equity shareholders of the Bank	14,543,459	14,399,379
Perpetual bonds	2,999,675	2,999,675
Non-controlling interests	697,297	524,444
Total equity	18,240,431	17,923,498
Total liabilities and equity	255,565,373	224,635,521

Condensed Consolidated Statements of Changes in Equity

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank									
	Share capital	Capital reserve	Surplus reserve	General reserve	Impairment reserve	Fair value reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at January 1, 2019	4,971,197	3,119,964	952,746	1,726,858	8,233	(53,108)	2,641,088	13,366,978	440,479	13,807,457
Changes in equity for the period:										
Net profit for the period	—	—	—	—	—	—	791,390	791,390	47,137	838,527
Other comprehensive income	—	—	—	—	1,692	(29,893)	—	(28,201)	—	(28,201)
Total comprehensive income	—	—	—	—	1,692	(29,893)	791,390	763,189	47,137	810,326
Appropriation of profit										
— Appropriation to general reserve	—	—	—	286,802	—	—	(286,802)	—	—	—
— Appropriation to shareholders	—	—	—	—	—	—	(418,216)	(418,216)	—	(418,216)
Balance at June 30, 2019	4,971,197	3,119,964	952,746	2,013,660	9,925	(83,001)	2,727,460	13,711,951	487,616	14,199,567

	Attributable to equity shareholders of the Bank										
	Share capital	Capital reserve	Surplus reserve	General reserve	Impairment reserve	Fair value reserve	Retained earnings	Subtotal	Perpetual bonds	Non-controlling interests	Total
Balance at January 1, 2020	4,971,197	3,119,964	1,089,080	2,079,232	9,155	(29,831)	3,160,582	14,399,379	2,999,675	524,444	17,923,498
Changes in equity for the period:											
Net profit for the period	—	—	—	—	—	—	814,315	814,315	—	67,911	882,226
Other comprehensive income	—	—	—	—	7,498	(172,971)	—	(165,473)	—	—	(165,473)
Total comprehensive income	—	—	—	—	7,498	(172,971)	814,315	648,842	—	67,911	716,753
Capital contribution by non-controlling interests	—	(7,642)	—	—	—	—	—	(7,642)	—	139,942	132,300
Appropriation of profit											
— Appropriation to general reserve	—	—	—	213,803	—	—	(213,803)	—	—	—	—
— Appropriation to non-controlling interests	—	—	—	—	—	—	—	—	—	(35,000)	(35,000)
— Appropriation to shareholders	—	—	—	—	—	—	(497,120)	(497,120)	—	—	(497,120)
Balance at June 30, 2020	4,971,197	3,112,322	1,089,080	2,293,035	16,653	(202,802)	3,263,974	14,543,459	2,999,675	697,297	18,240,431

Condensed Consolidated Statements of Cash Flows

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2020	**2019**
Cash flows from operating activities		
Profit before income tax	1,089,661	1,025,542
Adjustments for:		
Impairment losses on assets	1,250,045	710,666
Depreciation and amortisation	101,549	107,450
Unrealised foreign exchange gains	(17,977)	(4,739)
Net losses on disposal of property and equipment	111	—
Net trading losses/(gains)	116,509	(39,144)
Net gains on disposal of investment securities	(888,575)	(681,148)
Interest expenses on debt securities issued	533,969	850,371
Interest expenses on lease liabilities	10,925	14,078
	2,196,217	1,983,076
Changes in operating assets		
Net increase in deposits with the central bank	(319,508)	(334,002)
Net decrease in deposits with banks and other financial institutions	849,687	369,319
Net increase in loans and advances to customers	(16,121,910)	(13,476,147)
Net decrease/(increase) in financial assets held under resale agreements	3,991,140	(1,559,250)
Net increase in other operating assets	(4,011,938)	(835,112)
	(15,612,529)	(15,835,192)
Changes in operating liabilities		
Net increase in borrowing from the central bank	2,602,672	291,576
Net decrease in deposits from banks and other financial institutions	(1,747,199)	(2,193,369)
Net increase in placements from banks and other financial institutions	3,142,065	326,930
Net increase in financial assets sold under repurchase agreements	331,253	3,852,021
Net increase in deposits from customers	25,089,912	16,383,567
Income tax paid	(556,694)	(304,640)
Net decrease in other operating liabilities	(2,312,143)	(108,423)
	26,549,866	18,247,662
Net cash flows generated from operating activities	13,133,554	4,395,546
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	305,204,491	199,058,778
Gains received from investment activities	2,539,406	2,275,849
Payments on acquisition of investments	(323,139,927)	(195,655,873)
Payments on acquisition of property and equipment, intangible assets and other assets	(19,636)	(23,058)
Proceeds from disposal of property and equipment, intangible assets and other assets	6,792	—
Net cash flows (used in)/generated from investing activities	(15,408,874)	5,655,696
Cash flows from financing activities		
Proceeds from capital contribution by non-controlling interests	132,300	—
Proceeds from debt securities issued	15,880,620	44,585,543
Repayment of debt securities issued	(14,980,000)	(52,940,000)
Interest paid on debt securities issued	(461,184)	(880,098)
Capital element of lease liabilities paid	(39,188)	(52,890)
Interest element of lease liabilities paid	(10,925)	(14,078)
Dividends paid	(497,120)	(78,526)
Dividends paid to non-controlling interests	(35,000)	–
Net cash flows used in financing activities	(10,497)	(9,380,049)
Effect of foreign exchange rate changes on cash and cash equivalents	992	452
Net (decrease)/increase in cash and cash equivalents	(2,284,825)	671,645
Cash and cash equivalents as at January 1	35,241,608	20,863,452
Cash and cash equivalents as at June 30	32,956,783	21,535,097
Interest received	6,505,050	4,797,484
Interest paid (excluding interest expense on debt securities issued)	(2,419,929)	(1,696,364)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

1. BACKGROUND INFORMATION AND BASIS OF PREPARATION

Weihai City Commercial Bank Co., Ltd. (formerly Weihai City Cooperation Bank Co., Ltd.) commenced business as a city commercial bank on July 21, 1997, according to the approval by the People's Bank of China (the "PBoC"). According to the approval by the PBoC Shandong Branch, Weihai City Cooperation Bank Co., Ltd. was renamed as Weihai City Commercial Bank Co., Ltd. on April 17, 1998.

The Bank has been approved by the former CBRC (Shandong Branch) to hold financial business permit (No. D10014650043). By June 30, 2020, the registered capital of the Bank was RMB4,971,197,344, with its registered office located at No. 9 Baoquan Road Weihai, Shandong Province.

The Group's principal businesses include corporate banking, retail banking, financial markets and finance lease services.

The condensed consolidated interim financial information of the Group for the six months ended June 30, 2020 has been prepared solely for the purpose of inclusion of certain financial information of the Group in the prospectus of the Bank issued on September 29, 2020.

This condensed consolidated interim financial information have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, issued by the International Accounting Standards Board ("IASB") except that the condensed consolidated interim financial information does not contain all the minimum disclosure of interim financial information required by IAS 34.

The information set out below does not form part of the Accountants' Report prepared by the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included herein for information purpose only.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplementary financial information as follows:

1. Liquidity coverage ratio and leverage ratio

(a) Liquidity coverage ratio

	At December 31, 2017	Average for the year ended December 31, 2017
Liquidity coverage ratio (RMB and foreign currency)	424.98%	406.33%

	At December 31, 2018	Average for the year ended December 31, 2018
Liquidity coverage ratio (RMB and foreign currency)	199.27%	312.13%

	At December 31, 2019	Average for the year ended December 31, 2019
Liquidity coverage ratio (RMB and foreign currency)	307.18%	253.23%

	At March 31, 2020	Average for the three months ended March 31, 2020
Liquidity coverage ratio (RMB and foreign currency)	219.80%	263.49%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks, the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall not fall below 90%.

(b) Leverage Ratio

	At December 31, 2017	At December 31, 2018	At December 31, 2019	At March 31, 2020
Leverage Ratio	4.75%	6.18%	7.25%	7.00%

Pursuant to the Administrative Measures on the Leverage Ratio Management of Commercial Banks issued by the former CBRC and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

(c) Net Stable Funding Ratio

	At June 30, 2019	At September 30, 2019	At December 31, 2019	At March 31, 2020
Available stable funding	126,733,709	134,562,049	141,000,198	149,163,212
Required stable funding	103,150,703	106,779,341	105,448,367	130,318,619
Net Stable Funding Ratio	122.86%	126.02%	133.71%	114.46%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio 100% is required.

The above liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

2. Currency concentrations

	At December 31, 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	1,622,348	—	3,183	1,625,531
Spot liabilities	(1,583,931)	—	(3,176)	(1,587,107)
Net position	38,417	—	7	38,424

	At December 31, 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	1,453,478	—	741	1,454,219
Spot liabilities	(1,393,224)	—	(749)	(1,393,973)
Net position	60,254	—	(8)	60,246

	At December 31, 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	2,285,361	—	1,849	2,287,210
Spot liabilities	(2,285,005)	—	(1,794)	(2,286,799)
Net position	356	—	55	411

	At March 31, 2020			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	1,866,262	—	2,986	1,869,248
Spot liabilities	(1,863,354)	—	(2,980)	(1,866,334)
Net position	2,908	—	6	2,914

The Group has no structural position at the end of each of the Track Record Period.

3. International claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with the central bank, amounts due from banks and other financial institutions.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	At December 31, 2017		
	Banks and other financial institutions	Non-bank private sector	Total
	RMB'000	RMB'000	RMB'000
Asia Pacific	33	203	236
Europe	132	—	132
Total	165	203	368

	At December 31, 2018		
	Banks and other financial institutions	Non-bank private sector	Total
	RMB'000	RMB'000	RMB'000
Asia Pacific	903	—	903
Europe	673	—	673
Total	1,576	—	1,576

	At December 31, 2019		
	Banks and other financial institutions	Non-bank private sector	Total
	RMB'000	RMB'000	RMB'000
Asia Pacific	20	—	20
Europe	943	—	943
Total	963	—	963

	At March 31, 2020		
	Banks and other financial institutions	Non-bank private sector	Total
	RMB'000	RMB'000	RMB'000
Asia Pacific	22	—	22
Europe	2	—	2
Total	24	—	24

4. Gross amount of overdue loans and advances

	At December 31,			At March 31,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Gross loans and advances which have been overdue with respect to either principal or interest for periods of				
— between 3 and 6 months (inclusive)	128,685	381,154	463,870	555,117
— between 6 months and 1 year (inclusive)	303,547	611,619	425,200	632,563
— between 1 year and 3 years (inclusive)	537,219	257,755	526,512	618,314
— over 3 years	2,293	26,860	56,707	58,644
Total	971,744	1,277,388	1,472,289	1,864,638
As a percentage of total loans and advances				
— between 3 and 6 months (inclusive)	0.19%	0.50%	0.50%	0.54%
— between 6 months and 1 year (inclusive)	0.46%	0.81%	0.46%	0.61%
— between 1 year and 3 years (inclusive)	0.81%	0.34%	0.57%	0.59%
— over 3 years	0.00%[(1)]	0.04%	0.06%	0.06%
Total	1.46%	1.69%	1.59%	1.80%

(1) Represents the amount less than 0.01%

The information set out in this appendix does not form part of the Accountants' Report prepared by BDO Limited, Certified Public Accountants, Hong Kong, the independent reporting accountants, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "FINANCIAL INFORMATION" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is set out herein to provide the prospective investors with further illustrative financial information about the effect of the Global Offering on the Group's consolidated net tangible assets attributable to Shareholders of the Bank as of March 31, 2020, as if the Global Offering had taken place on March 31, 2020.

The preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets is for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the Group's consolidated net tangible assets attributable to Shareholders of the Bank had the Global Offering been completed as of March 31, 2020 or at any future date.

	Consolidated net tangible assets attributable to Shareholders of the Bank as of March 31, 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Bank	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB Million	RMB Million	RMB Million	RMB	HK$
	(Note (1))	*(Notes (2)&(5))*	*(Note (3))*	*(Note (4))*	*(Notes (5))*
Base on an Offer Price of HK$3.35 per H Share	14,456.5	2,468.9	16,925.4	2.89	3.31
Base on an Offer Price of HK$3.51 per H Share	14,456.5	2,589.7	17,046.2	2.91	3.34

Notes:

1. The consolidated net tangible assets attributable to Shareholders of the Bank as of March 31, 2020 are based on the consolidated total equity attributable to Shareholders of the Bank of RMB14,493.0 million, after deduction of intangible assets of RMB36.5 million.

2. The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted consolidated net tangible assets are based on the Offer Price of HK$3.35 per H Share (being the low-end of the proposed Offer Price range) and HK$3.51 per H Share (being the high-end of the proposed Offer Price range) and assuming there are 877,271,000 H Shares newly issued in the Global Offering, after deduction of the underwriting fees and other related listing expenses payable by the Bank and taking no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Bank do not take into account the financial results or other transactions of the Group subsequent to March 31, 2020.

4. The unaudited pro forma adjusted consolidated net tangible assets per Share are arrived at after the adjustments for the estimated net proceeds from the Global Offering as described in note 2 and on the basis of 5,848,468,344 Shares in issue and assuming that the Global Offering has been completed on March 31, 2020, and taking no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.

5. The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted consolidated net tangible assets per Share are translated into or from Renminbi at the rate of RMB0.8721 to HK$1, the exchange rate set by the PBoC prevailing on September 18, 2020. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the independent reporting accountants of the Bank, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information for the purpose of inclusion in this prospectus.

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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of Weihai City Commercial Bank Co., Ltd

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Weihai City Commercial Bank Co., Ltd (the "Bank") by the directors of the Bank (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Bank as at March 31, 2020 and related notes as set out in Part A of Appendix IV of the Bank's prospectus dated September 29, 2020 (the "Prospectus") in connection with the proposed initial global offering of the shares of the Bank (the "Global Offering"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described in Part A of Appendix IV to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering on the Bank's consolidated financial position as at March 31, 2020 as if the Global Offering had taken place at March 31, 2020. As part of this process, information about the Bank's consolidated financial position has been extracted by the Directors from the Bank's historical financial information for the three months ended March 31, 2020, on which an accountants' report as set out in Appendix I of the Prospectus 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").

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 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' 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 accountants plan and perform 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 purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 Global Offering as at March 31, 2020 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 unaudited 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 accountants' judgement, having regard to the reporting accountants' understanding of the nature of the entity, 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 procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Bank's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Bank; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants
Hong Kong
September 29, 2020

This appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to the Bank's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix VII — Taxation and Foreign Exchange" to this document. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, certain requirements of the Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers. The principal objective of this summary is to provide an overview of the principal legal and regulatory provisions applicable to the Bank. For specific laws and regulations that regulate our business, see "Supervision and Regulation".

1. THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution (the "Constitution") and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which PRC Government is a signatory. Court judgments do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance.

Pursuant to the Constitution and the Legislation Law of the People's Republic of China ("Legislation Law"), the National People's Congress ("NPC") and its Standing Committee are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing criminal, civil, State organs and other matters. The Standing Committee of the NPC formulates and amends laws other than those required to be enacted by the NPC and supplements and amends parts of the laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people's congresses of the provinces, autonomous regions and municipalities and their standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people's congresses of cities divided into districts and their standing committees may formulate local regulations based on the specific circumstances and actual needs of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions, and they shall submit the regulations to the standing committees of the people's congresses of the provinces or autonomous regions for approval before implementation.

People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned.

The ministries and commissions of the State Council, PBoC, NAO and the subordinate institutions with administrative functions directly under the State Council may formulate rules and regulations within the jurisdiction of their respective departments based on the laws, and the administrative regulations, decisions and orders of the State Council. Provisions of departmental rules should be the matters related to the enforcement of the laws or the administrative regulations, decisions and orders of the State Council. The people's governments of the provinces, autonomous regions, municipalities and cities or autonomous prefectures divided into districts may formulate rules and regulations based on the laws, administrative regulations and relevant local regulations.

According to the Constitution and the Legislation Law, the power to interpret laws is vested in the Standing Committee of the NPC. Pursuant to the Resolution of the Standing Committee of the NPC Providing an Improved Interpretation of the Law (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) effective on June 10, 1981, in cases where the limits of articles of laws need to be further defined or additional stipulations need to be made, the Standing Committee of the NPC should provide interpretations or make stipulations by means of decrees. Issues related to the specific application of laws and decrees in a court trial and a prosecution process of the procuratorates should be interpreted by the Supreme People's Court and the Supreme People's Procuratorate, respectively. Issues related to laws other than those mentioned above should be interpreted by the State Council and the competent authorities. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative authorities which promulgate such laws.

2. THE PRC JUDICIAL SYSTEM

Under the Constitution and the Law of Organization of the People's Courts of the PRC (《中華人民共和國法院組織法》), the PRC judicial system is made up of the Supreme People's Court, the local people's courts at all levels, the military courts and other special people's courts. The local people's courts at all levels are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The Supreme People's Court is the highest judicial authority. The Supreme People's Court shall supervise the judicial work of the local people's courts at all levels and special people's courts, and people's courts at higher levels shall supervise the judicial work of people's courts at lower levels. The Supreme People's Procuratorate is authorized to supervise the judgment and ruling of the people's courts at all levels which have been legally effective, and the people's procuratorate at a higher level is authorized to supervise the judgment and ruling of a people's court at lower levels which have been legally effective.

The people's courts employ a two-tier appellate system. A party may lodge an appeal to the people's court at the next higher level against the judgment or ruling of the first instance of a local people's court. The people's procuratorate may present a protest to the people's court at the next higher level in accordance with the procedures stipulated by the laws. In the absence of any appeal by the parties and any protest by the people's procuratorate within the stipulated period, the judgments or rulings of the people's court are final. Judgments or rulings of the second instance of the court at the next higher level are final. Judgments or rulings of the first instance of the Supreme People's Court are also final. However, if the Supreme People's Court or a people's court at the next higher level discovers an error in a judgment or ruling which has been legally effective in any people's court at a lower level, or the presiding judge of a people's court discovers an error in a judgment which has been legally effective in the court over which he/she presides, a retrial of the case may be initiated according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "PRC Civil Procedure Law") effective on April 9, 1991 and last amended on June 27, 2017 prescribes the conditions for instituting a civil action, the jurisdiction of the people's courts, the procedures for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must abide by the PRC Civil Procedure Law. A civil case is generally heard first by the court located in the defendant's place of domicile. The parties to a contract may, by a written agreement, choose a people's court of jurisdiction located at places directly connected with the disputes, such as the defendant's place of domicile, the place where the contract is executed or signed, the plaintiff's place of domicile or the place where the object is located. However, such choice shall not in any circumstances contravene the regulations of differential jurisdiction and exclusive jurisdiction.

A foreign citizen, person without nationality, foreign-invested enterprise or foreign organization, when initiating legal proceedings or defending against proceedings at the people's court, is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should the judicial system of a foreign country limit the litigation rights of PRC citizens or enterprises, the PRC court may apply the same limitations to the citizens and enterprises (in China) of such foreign country according to principle of reciprocity. A foreign citizen, person without nationality, foreign-invested enterprise or foreign organization must engage a PRC lawyer in case he/she or it needs to engage a lawyer for the purpose of initiating actions or defending against litigations at a PRC court. In accordance with the international treaties to which the PRC is a signatory or participant or according to the principle of reciprocity, a people's court and a foreign court may request each other to serve documents, conduct investigation, collect evidence and conduct other actions on its behalf. A PRC court shall not accommodate any request made by a foreign court which will result in the violation of sovereignty, security or public interests of the PRC.

All parties to a civil action shall perform legally effective judgments and rulings. If any party to a civil action refuses to abide by a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within two years subject to application for postponed enforcement or revocation. If a party fails to satisfy within the stipulated period a judgment which the court has granted an enforcement approval, the court may, upon the application of the other party, mandatorily enforce the judgment against such party. A party seeking to enforce a judgment or ruling of a people's court against another party who is not or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. Or, the people's court may, according to the international treaties to which the PRC is a signatory or participant or principle of reciprocity, request a foreign court to recognize and enforce the judgment or ruling. Likewise, if the PRC has entered into either a treaty relating to judicial enforcement with the relevant foreign country or a relevant international convention or according to principle of reciprocity, a foreign judgment or ruling may also be recognized and enforced in accordance with the PRC enforcement procedures by a PRC court unless the people's court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC, its sovereignty or national security, or would not be in public interest.

3. THE PRC COMPANY LAW, THE SPECIAL REGULATIONS, THE MANDATORY PROVISIONS AND THE OPINIONS CONCERNING THE SUPPLEMENT AND AMENDMENT

A joint stock limited company incorporated in China and listed on The Stock Exchange of Hong Kong Limited is mainly governed by the following four PRC laws and regulations:

- The PRC Company Law effective on July 1, 1994 and successively amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018. The latest revised Company Law of the People's Republic of China has been implemented since October 26, 2018 (the "PRC Company Law");

- The Special Regulations of the State Council on the Overseas Offering and the Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (the "Special Regulations") effective on August 4, 1994;

- The Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》) (the "Mandatory Provisions") effective on September 29, 1994;

- The Reply on Opinions Concerning the Supplement and Amendment to Articles of Association by Companies to Be Listed in Hong Kong (《關於到香港上市公司對公司章程作補充修改的意見的函》) (the "Opinions Concerning the Supplement and Amendment") effective on April 3, 1995, further stipulating the application of the Mandatory Provisions to companies to be listed in Hong Kong;

- The Official Reply of the State Council regarding Adjusting the Application of Provisions to Matters Including the Notice Period of Overseas Listed Companies for Convening Shareholders' General Meetings (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批復》) (the "Official Reply regarding Adjusting the Application") effective on October 17, 2019, prescribing the convening of shareholders' general meetings of companies to be listed in Hong Kong.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations, the Mandatory Provisions, the Opinions Concerning the Supplement and Amendment and the Official Reply regarding Adjusting the Application applicable to the Bank:

(1) General

A joint stock limited company refers to a corporate legal person incorporated under the PRC Company Law with its registered capital divided into shares of equal nominal value. The shareholders of the company shall bear liability for the company to the extent of the shares they subscribe for, and the company shall bear liability for the debts of the company with all its assets.

A company must conduct its business in accordance with law and professional ethics. The company may invest in other limited liability companies or joint stock limited companies, and shall be liable for the invested companies to the extent of its capital contribution.

(2) Incorporation

A joint stock limited company may be incorporated by promotion or subscription. A joint stock limited company shall be incorporated by a minimum of two but no more than 200 promoters, and at least half of the promoters must be residents within the PRC.

Incorporation by promotion means that promoters incorporate a company by subscribing for all the shares that should be issued by the company. The registered capital of a joint stock limited company incorporated by promotion is the total share capital subscribed for by all the promoters registered in the companies registration authority. Shares shall not be offered to others unless the shares subscribed for by the promoters have been fully paid up.

Incorporation by subscription means that promoters incorporate a company by subscribing for part of the shares that should be issued by the company, with the remaining shares offered to the public or specific targets. Where joint stock limited companies are incorporated by subscription, not less than 35% of their total number of shares must be subscribed for by the promoters, unless otherwise provided for by laws or administrative regulations. The registered capital of a joint stock limited company incorporated by subscription is the total paid-up share capital registered in the companies registration authority. The promoters shall convene an inauguration meeting within 30 days following the full payment of subscription monies for the outstanding shares and shall inform all the subscribers of or announce the date of the inauguration meeting 15 days before convening the meeting. The inauguration meeting shall be attended by promoters and subscribers representing more than half of the shares. The inauguration meeting shall be responsible for adopting the articles of association, and electing the members of the board of directors and supervisory committee of the company. All the resolutions at the inauguration meeting shall be approved with more than half of the voting rights held by subscribers present at the meeting. Within 30 days of the conclusion of the inauguration meeting, the board of directors shall 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 after a business license has been issued by the relevant registration authority.

A company's promoters shall be liable for:

(i) the debts and expenses incurred in the incorporation process jointly and severally if the company cannot be incorporated;

(ii) the refund of subscription monies paid by the subscribers together with interest at bank rates of deposit for the same period jointly and severally if the company cannot be incorporated; and

(iii) the compensation of any damages suffered by the company in the course of its incorporation as a result of the promoters' default.

(3) Share Capital

According to the PRC Company Law, a shareholder may make a capital contribution in currencies, or non-monetary assets such as in kind, assets, intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully. If a capital contribution is made in non-monetary assets, a valuation of the assets contributed must be carried out pursuant to the provisions of laws or administrative regulations on valuation without any over-valuation or under-valuation.

The issuance of shares shall be conducted in a fair and equitable manner. Each share of the same class must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. The same price per share shall be paid by any share subscriber (whether an entity or an individual). The share offering price may be equal to or greater than the nominal value of the share, but may not be less than the nominal value.

A company must obtain the approval of CSRC to offer its shares to overseas public. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be in registered form, denominated in Renminbi and subscribed for in foreign currencies. Shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC, other than these regions mentioned above, are known as domestic shares. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to retain not more than 15% of the aggregate number of overseas-listed foreign shares proposed to be issued in addition to the number of underwritten shares.

Under the PRC Company Law, a company issuing registered share certificates shall maintain a share register which sets forth the following matters: (1) the name or title and domicile of each shareholder; (2) the number of shares held by each shareholder; (3) the serial numbers of share certificates held by each shareholder; and (4) the date on which each shareholder acquired the shares.

(4) Increase in Registered Capital

Pursuant to the PRC Company Law, where a joint stock limited company is issuing new shares, resolutions shall be passed at a shareholder's general meeting in respect of the class (including domestic shares and foreign shares) and number of the new shares, the issue price of the new shares, the commencement and end dates for the issue of the new shares and the class and number of the new shares issued to the original shareholders. When a company launches a public issue of new shares to the public upon the approval by the securities regulatory authorities of the State Council, a new share offering prospectus and financial and accounting reports must be announced and a share subscription form must be prepared. After the new shares issued by the company have been paid up, the change must be registered with the companies registration authority and a public announcement must be made.

(5) Reduction of Registered Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law: (I) the company shall prepare a balance sheet and an inventory of properties; (II) the company shall make a resolution at a shareholders' general meeting to reduce share capital; (III) the company shall notify its creditors within 10 days after making the resolution to reduce registered capital and publish a related announcement in newspapers within 30 days; (IV) a creditor may, within 30 days after receipt of the notification, or within 45 days after the date of announcement if he/she has not received the notification, have the right to request the company to settle any outstanding debts or provide relevant guarantees; (V) the company must apply to the companies registration authority for change in registration due to reduction in registered capital.

(6) Repurchase of Shares

Pursuant to the PRC Company Law, a company may not repurchase its own shares other than for one of the following purposes:(I) reduction of its registered capital; (II) merger with another company which holds its shares; (III) use of its shares for carrying out an employee stock ownership plan or equity incentive plan; (IV) request from shareholders who object to a resolution of a shareholders' general meeting on merger or division of the company to acquire their shares by the company; (V) use of shares for conversion of convertible corporate bonds issued by a listed company; and (VI) the repurchase of shares is necessary for a listed company to maintain its company value and protect its shareholders' equity.

A resolution of a shareholders' general meeting is required for the repurchase of shares by a company under either of the circumstances stipulated in item (I) or item (II) above; for a company's repurchase of shares under any of the circumstances stipulated in item (III), item (V) or item (VI) above, a resolution of a meeting of the board of directors shall be made by more than two-thirds of directors attending the meeting according to the provisions of the company's articles of association or as authorized by the shareholders' general meeting.

The shares acquired under the circumstance stipulated in item (I) hereof shall be deregistered within ten days from the date of acquisition of shares; the shares shall be assigned or deregistered within six months if the repurchase of shares is made under the circumstances stipulated in either item (II) or item (IV); and the shares in a company held in total by the company after the repurchase of shares under any of the circumstances stipulated in item (III), item (V) or item (VI) shall not exceed 10% of the company's total outstanding shares, and shall be assigned or deregistered within three years.

Listed companies repurchasing their own shares shall perform their obligation of information disclosure according to the provisions of the PRC Securities Law. If the repurchase of their own shares is made by listed companies under any of the circumstances stipulated in item (III), item (V) or item (VI) hereof, centralized trading shall be adopted publicly.

A company shall not accept its own shares as the subject matter of pledge.

(7) Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. Pursuant to the PRC Company Law, a shareholder should effect a transfer of his/her shares on a stock exchange established in accordance with laws or by any other means as required by the State Council. Change of the share register described in the preceding paragraph shall not be registered within 20 days before convening of a shareholders' general meeting or five days prior to the base date on which the company decides to distribute dividends. However, where the laws have other provisions on change of the share register of listed companies, such provisions shall prevail. According to the Mandatory Provisions, change of the share register arising from share transfer shall not be registered within 30 days before convening of a shareholders' general meeting or within five days prior to the base date on which the company decides to distribute dividends.

Under the PRC Company Law, a promoter of a company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares of the company issued prior to the public offering cannot be transferred within one year from the listing date of the shares of the company on a stock exchange. Directors, supervisors and the senior management personnel of the company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company every year. The shares they held in the company cannot be transferred within one year from the listing date of the shares of the company and also cannot be transferred within half a year after such persons have left office.

(8) Shareholders

Under the PRC Company Law, the rights of shareholders include the rights:

(I) to receive a return on assets, participate in significant decision-making and select managers;

(II) to petition the people's court to revoke any resolution passed at a shareholders' general meeting or a meeting of the board of directors that has not been convened or has not conducted voting in compliance with the laws and regulations or the articles of association, or any resolution the contents of which is in violation of the articles of association, provided that such petition shall be submitted within 60 days after the passing of such resolution;

(III) to transfer the shares of the shareholders according to the applicable laws and regulations and the articles of association;

(IV) to attend or appoint a proxy to attend shareholders' general meetings and exercise the voting rights;

(V) to inspect the articles of association, share register, counterfoil of corporate bonds, minutes of shareholders' general meetings, resolutions of the board of directors, resolutions of the supervisory committee and financial and accounting reports, and to make suggestions or inquiries in respect of the company's operations;

(VI) to receive dividends in respect of the number of shares held;

(VII) to participate in distribution of residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and

(VIII) any other shareholders' rights provided for in laws, administrative regulations, other normative documents and the articles of association.

The obligations of shareholders include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the subscription monies agreed to be paid in respect of the shares taken up by them and any other shareholders' obligation specified in the articles of association.

(9) Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its functions and powers in accordance with the PRC Company Law. The shareholders' general meeting may exercise its functions and powers:

(I) to decide on the company's operational objectives and investment plans;

(II) to elect and replace the directors who are not representatives of staff and to decide on the matters relating to the remuneration of directors;

(III) to elect and replace the supervisors who are not representatives of staff and to decide on the matters relating to the remuneration of supervisors;

(IV) to review and approve the reports of the board of directors;

(V) to review and approve the reports of the supervisory committee or supervisors;

(VI) to review and approve the company's annual financial budgets and final accounts;

(VII) to review and approve the company's profit distribution proposals and loss recovery proposals;

(VIII) to decide on any increase or reduction of the company's registered capital;

(IX) to decide on the issue of corporate bonds;

(X) to decide on merger, division, dissolution and liquidation of the company or change of its corporate form;

(XI) to amend the company's articles of association; and

(XII) to exercise any other functions and powers stipulated in the articles of association.

According to the PRC Company Law, a shareholders' general meeting is required to be held once every year. An extraordinary general meeting is required to be held within two months after the occurrence of any of the following:

(I) the number of directors is less than the number stipulated by the laws or less than two thirds of the number specified in the articles of association;

(II) the outstanding losses of the company amounted to one-third of the company's total paid-in share capital;

(III) shareholders individually or in aggregate holding more than 10% of the company's shares request that an extraordinary general meeting is convened;

(IV) the board of directors deems necessary;

(V) it is proposed by the supervisory committee;

(VI) any other circumstances as provided for in the articles of association.

A shareholders' general meeting shall be convened by the board of directors and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or is not performing his/her duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or is not performing his/her duties, a director nominated by more than half of the directors shall preside over the meeting. Where the board of directors is incapable of performing or is not performing its duties to convene the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. If the supervisory committee fails to convene and preside over such meeting, shareholders individually or in aggregate holding more than 10% of the company's shares for more than 90 consecutive days may convene and preside over such meeting by themselves.

In accordance with the PRC Company Law, a notice of the shareholders' general meeting stating the date and venue of the meeting and the matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. A notice of an extraordinary general meeting shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting.

In accordance with the Mandatory Provisions, a written notice of the shareholders' general meeting stating the date and venue of and the matters to be considered at the meeting shall be given to all shareholders 45 days before the meeting. A shareholder who intends to attend the meeting shall deliver his/her written reply regarding his/her attendance of the meeting to the company 20 days before the date of the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' general meeting, although the Special Regulations and the Mandatory Provisions provide that a company's shareholders' general meeting may be convened when written replies to the notice of that meeting from shareholders holding shares representing more than 50% of the voting rights in the company have been received 20 days before the proposed date. If that 50% level is not achieved, the company shall within five days notify the shareholders again by announcement of the matters to be considered at the meeting and the date and venue of the meeting, and the shareholders' general meeting may be held by the company thereafter.

According to the Official Reply of the State Council regarding Adjusting the Application of Provisions to Matters Including the Notice Period of Overseas Listed Companies for Convening Shareholders' General Meetings promulgated by the State Council on October 22, 2019, the requirements for the notice period for convening a shareholders' general meeting, shareholders' proposal right, and the procedures for convening a shareholders' general meeting of joint stock limited companies registered in China but listed overseas shall be collectively governed by the relevant provisions of the PRC Company Law, and no longer be governed by Articles 20 to 22 of the Special Regulations.

Pursuant to the PRC Company Law, shareholders present at a shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights.

An accumulative voting system may be adopted for the election of directors and supervisors at the shareholders' general meeting pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to the number of votes equivalent to the number of directors or supervisors to be elected at the shareholders' general meeting, and shareholders may use their voting rights in a concentrated manner.

Pursuant to the PRC Company Law, resolutions of the shareholders' general meeting must be passed by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division or dissolution of the company, increase or reduction of registered share capital, change of corporate form or amendments to the articles of association, which must be passed by at least two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by the company must be approved by way of resolution of the shareholders' general meeting, the board of directors shall convene a shareholders' general meeting promptly to vote on such matters.

Shareholders may appoint their proxies to attend a shareholders' general meeting on their behalf. The proxies of shareholders shall present the power of attorney issued by the shareholders to the company and exercise their voting rights within the authorization scope.

Minutes shall be prepared in respect of matters considered at the shareholders' general meeting and the chairman and directors attending the meeting shall endorse such minutes by signature. The minutes shall be kept together with the shareholders' attendance register and the power of attorney.

Pursuant to the Mandatory Provisions, the increase or reduction of share capital, the issuance of shares of any class, warrants or other similar securities and corporate bonds, the division, merger, dissolution and liquidation of the company, the amendments to the articles of association and any other matters, which, as resolved by way of an ordinary resolution of the shareholders' general meeting, may have a material impact on the company and require adoption by way of a special resolution, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders (including their proxies) present at the meeting.

The Mandatory Provisions require a special resolution to be passed at the shareholders' general meeting and a class meeting to be held in the event of a variation or derogation of the class rights of a class shareholder. For this purpose, holders of domestic shares and H shares are deemed to be shareholders of different classes.

(10) Board of Directors

According to the PRC Company Law, a joint stock limited company shall have a board of directors which shall consist of 5 to 19 members. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. The director may, after the expiry of his/her term of office, hold a consecutive term upon re-election.

Pursuant to the PRC Company Law, the following person may not serve as a director in a company:

(I) a person without or with limited capacity for civil conduct;

(II) a person who has been penalized or sentenced due to corruption, bribery, embezzlement, appropriation of property or the disruption of the socialist market economy, and five (5) years have not elapsed from which the punishment or deprivation of political rights for the crimes committed was carried out;

(III) a director, factory director or manager of bankrupt and liquidated companies or enterprises whereby such person was personally liable for the bankruptcy of such companies or enterprises, and three (3) years have not elapsed from which the liquidation of the companies or enterprises was completed;

(IV) a legal representative of companies or enterprises which have had their business licenses revoked and the business of such companies or enterprises were compulsorily closed down due to a violation of laws in which such person was personally liable, and three (3) years have not elapsed from which the business license of the company or enterprise was revoked;

(V) a person with relatively large amounts of due and outstanding debt.

Where a company elects or appoints a director to which any of the above circumstances applies, such election or appointment shall be null and void. A director to which any of the above circumstances applies during his/her term of office shall be released of his/her duties by the company.

In addition, the Mandatory Provisions further stipulates other circumstances that a person is disqualified from acting as a director of a company, including: (1) the case was pending due to investigation by the judiciary for violation of the criminal law; (2) a person cannot act as the leader of the company according to laws and administrative regulations; (3) non-natural persons; and (4) a person has been ruled as violations of the provisions of relevant securities laws and regulations by the competent authority and committed any fraudulent or dishonest act, and it does not exceed five years from the date of the ruling.

The board of directors shall have one chairman, who shall be elected by more than half of all directors of the board of directors. The chairman shall convene and preside over board meetings and review the implementation of resolutions of the board of directors.

Meetings of the board of directors shall be convened at least twice each year, and the notice of each 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 one tenth of the voting rights, more than one-third of the directors or the supervisory committee. The chairman shall convene the meeting within 10 days of receiving such proposal, and preside over the meeting. The board of directors may otherwise determine the means and the period of notice for convening an interim board meeting. Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director shall have one vote for a resolution to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend for any reason, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the scope of authorization. The board of directors shall make minutes of the meeting's decisions on the matters discussed at the meeting, and the directors attending the meeting shall sign the meeting minutes.

The board of directors shall exercise the following functions and powers:

(I) to convene shareholders' general meetings and report to shareholders' general meetings;

(II) to execute resolutions of shareholders' general meetings;

(III) to decide on the company's business plans and investment plans;

(IV) to formulate the company's annual financial budgets and final accounts;

(V) to formulate the company's profit distribution proposals and loss recovery proposals;

(VI) to make plans for the increase or decrease of the registered capital of the company and for the issuance of corporate bonds;

(VII) to make plans for the merger, division and dissolution of the company or change of its corporate form;

(VIII) to decide on the internal management setup of the company;

(IX) to resolve on appointment, dismissal and remunerations of the general manager of the company, and as nominated by the general manager, to resolve on appointment, dismissal and remunerations of the company's deputy general managers and chief financial officer;

(X) to formulate the company's basic management system;

(XI) to exercise other functions and powers as specified in the articles of association.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association or resolutions of the shareholders' general meeting, and as a result of which the company sustains serious losses, the directors adopting the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director shall be relieved from that liability.

(11) Supervisory Committee

According to the PRC Company Law, a joint stock limited company shall have a supervisory committee composed of not less than three members. The supervisory committee shall be composed of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be determined in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third. Representatives of the company's staff at the supervisory committee shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. Directors and senior management members shall not act concurrently as supervisors.

The supervisory committee shall exercise the following functions and powers:

(I) to check the financial situations of the company;

(II) to supervise the acts of the directors and senior management personnel in performing their duties to the company and propose the removal of those directors and senior management personnel who violate the laws, administrative regulations, the articles of association or resolutions of shareholders' general meetings;

(III) to demand any director or senior management personnel who acts in a manner which is detrimental to the company's interests to rectify such behaviors;

(IV) to propose the convening of extraordinary general meetings and, in case the board of directors does not perform the obligations to convene and preside over the shareholders' general meetings in accordance with the Company Law, to convene and preside over the shareholders' general meetings;

(V) to propose motions to the shareholders' general meeting;

(VI) to bring actions against the directors and senior management personnel according to the PRC Company Law;

(VII) to exercise other functions and powers as specified in the articles of association.

The chairman of the supervisory committee shall convene and preside over supervisory committee meetings. Where the chairman of the supervisory committee is incapable of performing or is not performing his/her duties, the vice chairman of the supervisory committee shall convene and preside over supervisory committee meetings. Where the vice chairman of the supervisory committee is incapable of performing or is not performing his/her duties, a supervisor nominated by more than half of the supervisors shall convene and preside over supervisory committee meetings.

Each term of office of a supervisor is three years and he/she may serve consecutive terms if reelected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

(12) General Manager and Other Senior Management Personnel

Pursuant to the PRC Company Law, a joint stock limited company shall have a general manager who shall be appointed or removed by the board of directors. The board of directors shall have the right to appoint members of the board of directors to serve concurrently as general manager. The general manager, who reports to the board of directors, may exercise the following functions and powers:

(I) to manage the production, operation and administration of the company and arrange for the implementation of the resolutions of the board of directors;

(II) to arrange for the implementation of the company's annual operation plans and investment proposals;

(III) to formulate proposals for the establishment of the company's internal management organs;

(IV) to formulate the fundamental management system of the company;

(V) to formulate the company's specific rules and regulations;

(VI) to recommend the appointment or dismissal of any deputy general manager and chief financial officer of the company;

(VII) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board of directors); and

(VIII) to exercise other functions and powers granted by the board of directors.

Other provisions in the articles of association on the general manager's functions and powers shall also be complied with. The general manager shall be present at meetings of the board of directors. The articles of association are binding on the company and its shareholders, directors, supervisors, general manager and other senior management personnel, all of whom may, according to the articles of association, assert rights in respect of the affairs of the company.

(13) Duties of Directors, Supervisors, the General Manager and Other Senior Management Personnel

Directors, supervisors and senior management are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and shall be obliged to be faithful and diligent towards the company.

Directors, supervisors and management personnel are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company's property. Directors and senior management are prohibited from:

(I) misappropriating company funds;

(II) depositing company funds into accounts under their own names or the names of other individuals;

(III) loaning company funds to others or providing guarantees in favor of others supported by the company's property in violation of the articles of association or without approval of the shareholders' general meeting or the board of directors;

(IV) entering into contracts or transactions with the company in violation of the articles of association or without approval of the shareholders' general meeting;

(V) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating businesses similar to that of the company for their own benefits or on behalf of others without approval of the shareholders' general meeting;

(VI) accepting commissions paid by a third party for transactions conducted with the company for their own benefits;

(VII) unauthorized divulgence of confidential information of the company; and

(VIII) other acts in violation of their duty of loyalty to the company.

Income generated by directors or senior management in violation of aforementioned provisions shall be returned to the company.

If any director, supervisor or senior management member contravenes any law, regulation or the company's articles of association in fulfilling their duties, thereby incurring any loss to the company, they shall be liable for compensation to the company.

Where a director, supervisor or senior management member is required to be present at a shareholders' general meeting, such director, supervisor or senior management member shall be present at the meeting and answer the inquiries from shareholders. Directors and senior management shall furnish all true information and materials to the supervisory committee without impeding the discharge of duties by the supervisory committee or the supervisors.

Where a director or senior management member contravenes any law, regulation or the company's articles of association in the performance of his/her duties, thereby resulting in any loss to the company, shareholder(s) holding individually or in aggregate no less than 1% of the company's shares consecutively for at least 180 days may request in writing that the supervisory committee institute legal proceedings to a people's court. Where the supervisory committee violates the laws or administrative regulations or the articles of association in the discharge of its duties to the company, thereby resulting in any loss to the company, such shareholder(s) may request in writing that the board of directors institute legal proceedings to a people's court on their behalf. If the supervisory committee or the board of directors refuses to institute legal proceedings after receiving this written request from the shareholder(s), or fails to institute legal proceedings within 30 days of the date of receiving the request, or in case of emergency where failure to institute legal proceedings immediately will result in irrecoverable damage to the company's interests, such shareholder(s) shall have the power to institute legal proceedings directly to a people's court in their own name for the company's benefit. For other parties who infringe the lawful interests of the company, thereby resulting in loss to the company, such shareholder(s) may institute legal proceedings to a people's court in accordance with the procedure described above. Where a director or senior management member contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute legal proceedings to a people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general manager and other senior management personnel shall have duty of loyalty to the company. They are required to faithfully perform their duties, to protect the interests of the company and not to use their positions in the company for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

(14) Finance and Accounting

According to the PRC Company Law, a company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the financial departments of the State Council. At the end of each financial year, a company shall prepare financial and accounting reports which shall be audited by an accounting firm in accordance with the laws. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council.

The financial and accounting reports of a joint stock limited company shall be made accessible to shareholders at the company 20 days before the convening of an annual general meeting. A joint stock limited company that makes public stock offerings shall publish its financial and accounting reports.

When distributing profits after taxation for the current year, the company shall set aside 10% of the profits for the company's statutory common reserve fund until the fund has accumulated to 50% or more of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses for the previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund as prescribed above. After the company has made allocations to the statutory common reserve fund from its profits after taxation, it may, upon passing a resolution at a shareholders' general meeting, make further allocations from its profits after taxation to the discretionary common reserve fund. After the company has made good its losses and made allocations to its common reserve funds, the remaining profits after taxation shall be distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association.

If the shareholders' general meeting or the board of directors, in violation of the aforementioned provisions, distributes profits to shareholders before making good its losses and making allocations to statutory common reserve fund, the profits thus distributed shall be returned to the company. The company shall not be entitled to any distribution of profits in respect of the shares held by it.

Proceeds from shares issued by a joint stock limited company at a price above their nominal value and other revenues required by the financial departments of the State Council to be stated as capital reserve shall be accounted for as the capital reserve fund of the company. The common reserve fund of a company shall be applied to make good the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no accounting books other than the statutory books. The company's assets shall not be deposited in any account opened under the name of an individual.

(15) Appointment and Dismissal of Accounting Firm

Pursuant to the PRC Company Law, the appointment or dismissal of an accounting firm responsible for the company's auditing shall be determined by shareholders at a shareholders' general meeting or the board of directors in accordance with the articles of association. The accounting firm should be allowed to make representations when the shareholders' general meeting or the board of directors conduct a vote on the dismissal of the accounting firm on their respective meetings. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the newly-engaged accounting firm without any refusal or withholding or falsification of information.

The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company. The accounting firm's term of office shall commence from the end of the current annual general meeting to the end of the next annual general meeting.

(16) Profit Distribution

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve fund is withdrawn. The Special Regulations require that any dividend and other distribution to holders of H shares shall be declared and calculated in RMB and paid in foreign currency. Under the Mandatory Provisions, a company shall make foreign currency payments to shareholders through receiving agents.

(17) Amendments to the Articles of Association

Pursuant to PRC Company Law, a resolution of a shareholders' general meeting regarding any amendment to a company's articles of association requires affirmative votes by at least two-thirds of the votes held by shareholders attending the meeting. Pursuant to the Mandatory Provisions, the company may amend its articles of association according to the laws, administrative regulations and the articles of association. The amendment to articles of association involving content of the Mandatory Provisions will only be effective upon approval of the department in charge of company examination and approval and the securities regulatory department authorized by the State Council, while the amendment to articles of association involving matters of company registration must be registered with the relevant authority in accordance with applicable laws.

(18) Dissolution and Liquidation

Pursuant to the PRC Company Law, a company may be dissolved for any of the following reasons: (I) the term of its operation set out in the articles of association has expired or other events of dissolution specified in the articles of association have occurred; (II) the shareholders have resolved at a shareholders' general meeting to dissolve the company; (III) the company is dissolved by reason of its merger or division; (IV) the business license of the company is revoked or the company is ordered to close down or to be dissolved in accordance with the laws; or (V) the company is dissolved by a people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation and management of the company has suffered serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a cause for significant losses to the shareholders.

In the event of item (I) above, the company may carry on its existence by amending its articles of association, provided that it has obtained approval by more than two-thirds of the voting rights held by shareholders attending the shareholders' general meeting. Where the company is dissolved under the circumstances set forth in items (I), (II), (IV) or (V) above, it should establish a liquidation committee to start liquidation within 15 days of the date on which the dissolution matter occurs. The liquidation committee of a joint stock limited company shall be composed of directors or any other person determined by a shareholders' general meeting. If a liquidation committee is not established within the prescribed period, the company's creditors may file an application with a people's court, requesting that the court appoint relevant personnel to form a liquidation committee to administer the liquidation. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The liquidation committee may exercise following functions and powers during the liquidation:

(I) to dispose of the company's property and to prepare a balance sheet and an inventory of property;

(II) to inform creditors by notice or announcement;

(III) to deal with any outstanding businesses of the company related to liquidation;

(IV) to pay any outstanding tax together with any tax arising during the liquidation process;

(V) to settle the claims and debts;

(VI) to handle the company's remaining property after its debts have been paid off; and

(VII) to represent the company in any civil procedures.

The liquidation committee shall notify the company's creditors within 10 days of its establishment, and publish an announcement in newspapers within 60 days.

A creditor shall lodge his claim with the liquidation committee within 30 days of receipt of the notification or within 45 days of the date of the announcement if he has not received any notification.

In lodging a claim, a creditor shall state the matters relevant to the creditor's rights he/she has claimed and furnish relevant evidence. The liquidation committee shall register such creditor's rights. The liquidation committee shall not make any settlement to creditors during the period of the claim.

Upon disposal of the company's property and preparation of the required balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan and submit this plan to a shareholders' general meeting or a people's court for endorsement. The remaining assets of the company, after payment of liquidation expenses, employee wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts, shall be distributed to shareholders in proportion to shares held by them. The company shall continue to exist during the liquidation period, although it cannot engage in operating activities that are not related to the liquidation. The company's property shall not be distributed to shareholders before repayments are made in accordance with the requirements described above.

Upon liquidation of the company's property and preparation of the required balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws. Following such declaration by the people's court, the liquidation committee shall hand over the administration of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall prepare a liquidation report and submit it to the shareholders' general meeting or a people's court for confirmation of its completion and the company registration authority to cancel the company's registration, and an announcement of its termination shall be published. Members of the liquidation committee are required to discharge their duties in good faith and in compliance with relevant laws. Members of the liquidation committee shall be prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's properties. Members of the liquidation committee are liable to indemnify the company and its creditors in respect of any loss arising from their willful or material default.

Liquidation of a company declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

(19) Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from CSRC, and the listing must be arranged in accordance with procedures specified by the State Council. Pursuant to the Special Regulations, a joint stock limited company may offer shares to overseas investors and list its shares overseas upon approval from the securities commission of the State Council (now known as "CSRC"). Subject to approval of the company's plans to issue overseas-listed foreign shares and domestic shares by the securities commission of the State Council, the board of directors of the company may make arrangement to implement such plans for issuance of the foreign invested shares and domestic shares, respectively, within 15 months from the date of approval by the securities commission of the State Council.

At the same time, according to the provisions of the Special Regulations, if the company's shares determined by the company's issuance plan are not fully issued, new shares beyond the original issuance plan shall not be issued. If the company needs to adjust the issuance plan, the shareholders' general meeting shall make a resolution. After being approved by the company's examination and approval department authorized by the State Council, it shall be submitted to the securities commission of the State Council for examination and approval.

(20) Loss of Share Certificates

A shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people's court if his/her share certificate(s) in registered form is either stolen, lost or destroyed, for a declaration that such certificate(s) will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of a replacement certificate(s).

A separate procedure regarding the loss of share certificates and H share certificates of the overseas-listed foreign shareholders of the PRC is provided for in the Mandatory Provisions, details of which are set out in the articles of association.

(21) Merger and Division

Pursuant to the PRC Company Law, a merger agreement shall be signed by merging companies and the involved companies shall prepare respective balance sheets and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger in newspapers within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days of the date of the announcement if he/she has not received the notification, request the company to settle any outstanding debts or provide relevant guarantees.

In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company. In case of a division, the company's assets shall be divided and a balance sheet and an inventory of assets shall be prepared. When a resolution regarding the company's division is approved, the company should notify all its creditors within 10 days of the date of passing such resolution and publicly announce the division in newspapers within 30 days. Unless an agreement in writing is reached with creditors in respect of the settlement of debts, the liabilities of the company which have accrued prior to the separation shall be jointly borne by the separated companies.

Changes in the registration as a result of the merger or division shall be registered with the relevant administration authority for industry and commerce.

4. SECURITIES LAWS AND REGULATIONS

The PRC has promulgated a series of regulations that relate to the issue and trading of the shares and disclosure of information. In October 1992, the State Council established the securities commission of the State Council to enhance macro-control of the securities market and coordinate related policies on stocks, bonds, and government bonds. At the same time, CSRC was set up to establish and improve the securities regulatory system, which was subject to guidance, supervision & examination and management by the securities commission of the State Council. On March 29, 1998, the State Council canceled the securities commission of the State Council, the functions of which were handed over to CSRC.

On April 22, 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares (《股票發行與交易管理暫行條例》) govern the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, clearing and transfer of listed equity securities, the disclosure of information, investigation, penalties and dispute resolutions with respect to a listed company.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations principally govern the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

The Securities Law of the People's Republic of China (the "PRC Securities Law") took effect on July 1, 1999 and was revised as of August 28, 2004, October 27, 2005, June 29, 2013, August 31, 2014 and December 28, 2019, respectively. It was the first national securities law in the PRC, which is divided into 14 chapters and 226 articles with contents include, among other matters, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the securities regulatory authorities of the State Council. The PRC Securities Law comprehensively regulates activities in the PRC securities market. The amended Article 224 of the PRC Securities Law provides that domestic enterprises that directly or indirectly issue securities overseas or list their securities overseas for trading shall comply with the relevant provisions of the State Council. Currently, the issue and trading of foreign issued securities (including shares) are principally governed by the rules and regulations promulgated by the State Council and CSRC. On December 28, 2019, the 15th meeting of the Standing Committee of the 13th NPC further revised the PRC Securities Law, with effect from March 1, 2020.

5. ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the "PRC Arbitration Law") was enacted by the Standing Committee of the NPC on August 31, 1994, which became effective on September 1, 1995 and was amended on August 27, 2009 and September 1, 2017. The PRC Arbitration Law is applicable to, among other matters, economic disputes involving foreign parties where all parties have entered into a written agreement to resolve disputes by arbitration before an arbitration committee constituted in accordance with the PRC Arbitration Law. The PRC Arbitration Law provides that an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate interim arbitration rules in accordance with the PRC Arbitration Law and the PRC Civil Procedure Law. Where the parties have agreed to settle disputes by means of arbitration, a people's court will refuse to handle a legal proceeding initiated by one of the parties at such people's court, unless the arbitration agreement has lapsed.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Hong Kong Listing Rules, also in contracts between the company and each director or supervisor. Pursuant to such clause, whenever a dispute or claim arises from any right or obligation provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the company between (i) a holder of overseas-listed foreign shares and the company; (ii) a holder of overseas-listed foreign shares and a holder of domestic shares; or (iii) a holder of overseas-listed foreign shares and the company's directors, supervisors or other management personnel, such parties shall be required to refer such dispute or claim to arbitration at either the CIETAC or the HKIAC. Disputes in respect of the definition of shareholder and disputes in relation to the company's share register need not be resolved by arbitration.

Under the PRC Arbitration Law, an arbitral award shall be final and conclusive. The parties involved must perform the arbitral award. Where a party refuses to perform the arbitral award, the other party may apply to the people's court for performance according to relevant provisions of the civil procedure law. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee, the jurisdiction of the arbitration commission, or the making of an award on matters beyond the scope of the arbitration agreement).

Any party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not located within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the award. Likewise, an arbitral award made by a foreign arbitration body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or any international convention concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties thereto subject to their rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of accession to the New York Convention, the PRC stated: (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 based on the principle of reciprocity; (II) the PRC will only apply the New York Convention to disputes deemed under PRC law to be arising from contractual or non-contractual mercantile legal relations.

According to the Arrangement on Mutual Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region (《關於內地與香港特別行政區相互執行仲裁裁決的安排》), which came into effect on February 1, 2000, the courts of the HKSAR agree to enforce the awards made pursuant to the Arbitration Law of the People's Republic of China by the arbitral authorities in the Mainland (the list to be supplied by the former Legislative Affairs Office of the State Council through the Hong Kong and Macao Affairs Office of the State Council) and the people's courts of the Mainland agree to enforce the awards made in the HKSAR pursuant to the Arbitration Ordinance of the HKSAR. Pursuant to the Arbitration Ordinance (Chapter 609 of the laws of Hong Kong), subject to certain provisions, an award, whether made in or outside Hong Kong, in arbitral proceedings by an arbitral tribunal is enforceable in the same manner as a judgment of the Court that has the same effect, but only with the leave of the Court.

6. JUDICIAL JUDGMENT AND ITS ENFORCEMENT

According to the Arrangement of the Supreme People's Court 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 (《最高人民法院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》) effective from August 1, 2008, in the case of an enforceable final judgment on the payment amount made between the court of the Mainland and the court of the Hong Kong Special Administrative Region in a civil and commercial case with written jurisdiction agreement, any party concerned may apply to the people's court of China or the court of the Hong Kong Special Administrative Region for recognition and enforcement based on this arrangement. Written jurisdiction agreement refers to a written agreement defining the exclusive jurisdiction of either the people's court of China or the court of the Hong Kong Special Administrative Region in order to resolve any existing or possible dispute with particular legal relation by the party concerned. Therefore, the party concerned may apply to the court of China or the court of the Hong Kong to recognize and enforce the final judgment made in China or Hong Kong that meets certain conditions of the aforementioned regulations.

7. SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The laws of Hong Kong applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and the Companies (Winding up and Miscellaneous Provisions) Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC, the Company is governed by the PRC Company Law and all other applicable rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of material differences between the laws of Hong Kong applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and subsisting under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

(1) Corporate Subsistence

Under the laws of Hong Kong, a company with share capital shall be incorporated upon issuing a certificate of incorporation by the Registrar of Companies in Hong Kong, and will thus subsist as an independent company. 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 pre-emptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or subscription.

(2) Share Capital

Under Hong Kong law, the shares of a Hong Kong company do not have nominal values. With the prior approval (if necessary) of shareholders, directors may procure the company to issue new shares within the maximum number (if any) of shares specified in the articles of association.

The PRC Company Law does not provide the concept of statutory share capital except for registered capital. The registered capital of a joint stock limited company is the total share capital subscribed for by all the promoters registered in the companies registration authority. An increase in the registered capital must be approved by the shareholders attending the shareholders' general meeting and the relevant PRC governmental and regulatory authorities (if applicable).

Under the PRC Securities Law, a company which is approved by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not provide for minimum capital required for companies incorporated in Hong Kong.

Under the PRC Company Law, shareholders may make capital contributions in the form of money or appraised non-monetary assets including real objects, intellectual property and land use right which can be appraised in money and transferred according to laws. Non-monetary assets to be used as capital contributions must be appraised and verified and should not be overvalued or undervalued. There is no such restriction on a Hong Kong company under Hong Kong law.

(3) Restrictions on Transfer of Shares

Under PRC law, a joint stock limited company's domestic shares, which are denominated and subscribed for in Renminbi, in the share capital, generally may only be subscribed for and traded by the State, PRC legal persons, natural persons or other investment institutions permitted by laws and regulations. Overseas listed shares, which are denominated in Renminbi but subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau or Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. If H shares are qualified securities of the Hong Kong Stock Connect, the said shares may also be subscribed for or traded by Chinese investors based on a limited amount according to rules of the Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect. Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares issued prior to the public offering cannot be transferred within one year from the listing date of the shares of the company on a stock exchange. Shares in a joint stock limited company held by its directors, supervisors and senior management transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after such persons have 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 (i) six-month lockup on the company's issue of additional shares and (ii) the 12-month lockup on controlling shareholders' disposal of shares after global offering.

(4) 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 similar to those on a company and its subsidiaries providing such financial assistance under the Hong Kong law.

(5) Notice of Shareholders' General Meetings

Under the PRC Company Law, notices of an annual general meeting and an extraordinary general meeting must be given to shareholders 20 days and 15 days before the meeting, respectively. For a limited liability company incorporated in Hong Kong, the minimum period of notice is 14 days in case of other shareholders' meetings other than annual general meeting and 21 days in the case of an annual general meeting.

(6) Quorum for Shareholders' General Meetings

Under Hong Kong company law, the quorum for a shareholders' general meeting must be 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.

(7) Voting at Shareholders' General Meeting

Under the PRC Company Law, the passing of any resolution of a shareholders' general meeting 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 resolutions on 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.

Under Hong Kong law, (i) an ordinary resolution may be passed by a simple majority of affirmative votes of the shareholders who attend the shareholders' general meeting in person or by proxy, and (ii) a special resolution may be passed by no less than three fourths of affirmative votes of the shareholders who attend the shareholders' general meeting in person or by proxy.

(8) Variation of Class Rights

The PRC Company Law has no special provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate separate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect of variations of class rights. These provisions have been incorporated in the articles of association, which are summarized in Appendix VI to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders representing three fourths of the nominal value of the issued shares in the class, (iii) with the consent of the Hong Kong 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. The company has, according to the Listing Rules and the Mandatory Provisions, adopted the provisions on protection of class rights similar to those in Hong Kong law in the articles of association.

Holders of overseas listed foreign shares and domestic shares are defined as different classes of shareholders in the articles of association. However, the special procedure for approval for independent class shareholders shall not apply in the following cases: (I) upon the approval by way of a special resolution passed by a shareholders' general meeting, the company independently or simultaneously issues domestic shares and/or overseas listed foreign shares every 12 months, provided that the amount of each class of shares intended to be issued is not more than 20% of the issued and outstanding shares of the respective class as of the date of the special resolution of shareholders; (II) the company's plan on issuing domestic shares and overseas listed foreign shares at the time of incorporation, which is completed within 15 months upon the date of approval from the CSRC; and (III) the transfer of shares held by our holders of domestic shares to overseas investors or conversion of part of the domestic shares into overseas listed shares and trading of such shares in the overseas market upon approval of the CSRC.

(9) Directors

The PRC Company Law, unlike Hong Kong law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' rights to carry out major disposals or companies providing certain benefits, or prohibitions against compensation for loss of office without shareholders' approval. The PRC Company Law restricts the directors of a listed company who have interests or associations in the enterprises involved in the resolution of the board meetings from voting on the said resolution. The Mandatory Provisions, however, contain certain requirements and restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office. All the above provisions have been incorporated in the articles of association, which are summarized in Appendix VI.

(10) Supervisors

Under the PRC Company Law, a joint stock limited company's board of directors and general manager are subject to the supervision and inspection of the supervisory committee. There is no mandatory requirement for the establishment of the supervisory committee for a company incorporated in Hong Kong.

(11) 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 shareholders' general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name.

Pursuant to the PRC Company Law, in the event that the directors, supervisors and senior management violate laws, administrative regulations or the articles of association in performance of duties to the company, thereby causing damages to the company, the shareholders individually or jointly holding more than 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory committee to initiate proceedings in the people's court. If the supervisors are involved in the aforesaid circumstance, the above said shareholders may send written request to the supervisory committee 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 to observe the articles of association. This allows minority shareholders to initiate proceedings against directors and supervisors in default.

(12) 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/her 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 stipulates that if the company's operation and management are seriously distressed and continuous existing will cause significant losses to shareholders' interests and cannot be resolved through other channels, shareholders holding more than 10% of the company's shareholders' voting rights may request the people's court to dissolve the company. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights to relieve a director or supervisor of his/her duty to act honestly in the best interests of the company or make decisions to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company.

(13) Financial Disclosure

Under the PRC Company Law, a company is required to make available at the company's office address for inspection by shareholders its financial and accounting reports 20 days before its annual general meeting. In addition, a company of which the shares are publicly offered must publish its financial report in accordance with the PRC Company Law. A company shall prepare its financial and accounting reports at the end of each fiscal year, which reports shall be audited by certified public accountants according to law.

The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be presented at its annual general meeting, not less than 21 days before such meeting.

A company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any contradiction between the information disclosure documents prepared by a company for announcement within and outside the PRC. If there are differences in the information disclosed by the company within and outside the PRC in accordance with the relevant PRC and overseas laws, regulations and requirements of the stock exchanges, such differences should also be disclosed simultaneously in the relevant stock exchanges.

Under the Hong Kong law, if an annual general meeting is held in a certain fiscal year, the company should submit the text of the reporting documents in relation to the said fiscal year to every shareholder at least 21 days before the date of the meeting.

(14) Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

(15) Dividend and 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 three years. The Mandatory Provisions require the 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 foreign shares dividends distributed by the joint stock limited company in respect of the foreign shares and all other monies payable.

(16) Corporate Reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (Winding up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members under Section 673 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution, liquidation or change the form of a company has to be approved in the shareholders' general meeting by shareholders.

(17) Dispute Arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other hand, may be resolved 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 discretion.

(18) Statutory Deduction

Under the PRC Company Law, the Company shall withdraw 10% of the annual after-tax profits as the statutory common reserve fund of the Company. Such withdrawal may be stopped when the statutory common reserve fund of the Company has accumulated to at least 50% of the registered capital of the Company. After statutory common reserve is withdrawn out of the after-tax profits, discretionary common reserve may also be withdrawn out of the same as per a resolution made at a shareholders' general meeting. There are no corresponding provisions under Hong Kong law.

(19) Remedies of the Company

Under the PRC Company Law, if a director, supervisor or manager 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 manager shall be liable for compensation. In addition, the company's remedies are 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 personnel), in line with the Listing Rules.

(20) Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and special provisions, directors, supervisors and senior management personnel should not engage in any activities which compete with or damage the interests of their company.

(21) 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 PRC Company Law and Mandatory Provisions, change of the register of shareholders arising from share transfer shall not be registered within 30 days before convening of a shareholders' general meeting or within five days prior to the base date on which the company decides to distribute dividends.

8. HONG KONG LISTING RULES

The Listing Rules provide additional requirements which apply to the issuer incorporated in the PRC as a joint stock limited company ("PRC issuer") in accordance with PRC laws and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the main additional requirements which apply to the Company.

(1) Compliance Advisor

A PRC issuer seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor accredited by the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its financial results for the first full financial year commencing after the listing date.

The compliance advisor should provide professional advice on continuous compliance with the Hong Kong Listing Rules and all other applicable laws and regulations, and to act at all times, in addition to two authorized representatives of the PRC issuer, as the principal channel of communication with the Hong Kong Stock Exchange. The existing compliance advisor shall not be dismissed until a replacement approved by the Hong Kong Stock Exchange has been appointed. If the Hong Kong Stock Exchange considers that the compliance advisor has not fully fulfilled its responsibilities, it may require the PRC issuer to dismiss the compliance advisor and appoint a replacement.

The compliance advisor must keep the PRC issuer informed on a timely basis of changes in the Hong Kong Listing Rules and any applicable new or amended law, regulation or code in Hong Kong. It must act as the PRC issuer's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the PRC issuer are expected to be frequently outside Hong Kong.

(2) Accountants' Report

Accountants' reports are generally not acceptable unless the accounts have been audited in accordance with the standards similar to those in Hong Kong or in accordance with the International Standards on Auditing or the China Auditing Standards.

(3) Agent for Service of Process

The PRC issuer must appoint and authorize a person to accept legal proceedings and notices served on it in Hong Kong while its securities are listed on the Hong Kong Stock Exchange; the PRC issuer shall also notify the Hong Kong Stock Exchange of details of the appointment, termination of the appointment and contact details of the authorized person.

(4) Public Shareholding

If at any time here are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Hong Kong 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.

(5) Independent Non-executive Directors and Supervisors

Independent non-executive directors of a PRC issuer shall have acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of all shareholders of the listed company will be adequately represented. The PRC issuer shall have at least one independent non-executive director who usually resides in Hong Kong. Supervisors must have the quality, expertise, morals and abilities commensurate with their positions.

(6) Restrictions on Repurchase of Securities

A PRC issuer may repurchase its own shares according to the Hong Kong Listing Rules. In seeking shareholders' approval for the repurchase of the securities on the Hong Kong Stock Exchange or in reporting the repurchase related matters, the PRC issuer shall provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The number of shares authorized to be repurchased by the issuer shall not exceed 10% of the number of outstanding shares of the issuer.

(7) Redeemable Shares

An issuer must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of its shareholders are adequately protected.

(8) Pre-emptive Rights

Except in the circumstances mentioned below, directors of a PRC issuer are required to obtain approval by way of a special resolution of shareholders at shareholders' general meeting, and the approvals by way of special resolutions of the holders of domestic shares and H shares (each being entitled to vote at shareholders' general meetings) at separate class meetings conducted in accordance with the articles of association, prior to authorizing, allotting, issuing or granting the following securities: (i) shares; (ii) or securities convertible into shares; and (iii) options, warrants or similar rights to subscribe for any shares or such convertible securities. If the distribution of shares with voting rights will actually change the control rights of the PRC issuer, the directors of the PRC issuer shall not allocate such shares until they have obtained the prior approval of the shareholders by a special resolution at the shareholders' general meeting.

No such approval will be required unless (i) the existing shareholders have by special resolution in shareholders' general meeting given a mandate to the PRC issuer, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to recognize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the domestic shares and overseas-listed foreign shares issued by the PRC issuer at that time; or (ii) such shares are issued as part of the PRC issuer's plan at the time of its establishment to issue domestic shares and overseas-listed foreign shares and which plan is implemented within 15 months from the date of approval by the CSRC and other qualified securities regulatory authority under the State Council.

(9) Supervisors

The supervisors of a PRC issuer or any of its subsidiaries are connected persons. The issuer shall adopt rules governing dealings by the supervisors in listed securities of the issuer in terms as exacting than those of the Model Code set out in Appendix 10 to the Hong Kong Listing Rules.

A PRC issuer is required to obtain the approval of its shareholders at a shareholders general meeting (at which the relevant supervisor and his associates shall not vote on the matter) prior to the PRC issuer or any of its subsidiaries entering into a service contract of the following nature with a supervisor or proposed supervisor of the issuer or any of its subsidiaries (1) the term of the contract exceeds three years; or (2) the contract expressly requires the company (or its subsidiaries) to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year in order for it to terminate the contract.

The remuneration committee of the issuer or an independent board committee must form a view in respect of service contracts that require shareholders' approval, tell shareholders whether the terms are fair and reasonable, advise whether such contracts are in the interests of the issuer and its shareholders as a whole, and advise shareholders (other than directors and shareholders with a material interest in the service contracts and their associates) on how to vote.

(10) Amendment to Articles of Association

A PRC issuer may not permit or cause any amendment to be made to its articles of association which would contravene the PRC Company Law, the Mandatory Provisions and the Hong Kong Listing Rules.

(11) Documents available for Inspection

A PRC issuer is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by its shareholders at reasonable charges of the following:

- a complete duplicate register of shareholders;
- a report showing the state of the PRC issuer's issued share capital;
- the PRC issuer's latest audited financial statements and the reports of the directors, auditors and supervisors;
- special resolutions of the PRC issuer;
- reports showing the number and nominal value of PRC issuer's securities repurchased by the PRC issuer since 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 and foreign shares (and, if applicable, H shares));
- copy of the latest annual return filed with the Chinese State Administration for Industry and Commerce or other competent authorities; and
- for shareholders only, copies of minutes of shareholders' general meetings.

(12) Receiving Agents

A PRC issuer is required to appoint one or more receiving agents in Hong Kong to receive and keep, on behalf of the holders of relevant securities, the dividends declared and other monies payable by the PRC issuer in respect of its securities listed on the Hong Kong Stock Exchange, and hand over the same to the said holders.

(13) Statements in H-Share Certificates

A PRC issuer is required to ensure that all of its listing documents include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

- agrees with the PRC issuer and each shareholder, and it agrees with the PRC issuer and each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and articles of association of the PRC issuer;

- agrees with the PRC issuer, each shareholder, director, supervisor, manager and senior management personnel of the PRC issuer and the PRC issuer (acting both for itself and for each director, supervisor, manager and senior management personnel) agrees with each shareholder to refer all disputes and claims arising from the articles of association or any rights or obligations stipulated by the PRC Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the articles of association. Any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- agrees with the PRC issuer and each shareholder that shares are freely transferable by the holder thereof; and

- authorizes the PRC issuer to enter into a contract on his behalf with each director and senior management personnel whereby such directors and senior management personnel undertake to observe and comply with their obligations to shareholders as stipulated in the articles of association.

(14) Legal Compliance

A PRC issuer is required to observe and comply with the PRC Company Law, the Special Regulations and its articles of association.

(15) Contract between the PRC Issuer and Directors, Senior Management Personnel and Supervisors

A PRC issuer is required to enter into a contract in writing with every director and senior management personnel containing at least the following provisions:

- an undertaking by the director or senior management personnel to itself to observe and comply with the PRC Company Law, the Special Regulations, its articles of association, the Takeovers Code and Code on Share Repurchases, and an agreement that it must have the remedies provided in its articles of association and that neither the contract nor his office is capable of assignment;

- an undertaking by the director or senior management personnel to it acting as agent for each shareholder to observe and comply with his obligations to the shareholders as stipulated in the articles of association; and

- an arbitration clause which provides that whenever any disputes or claims arise from the contract, the articles of association or any rights or obligations stipulated by the PRC Company Law or other relevant law and administrative regulations concerning affairs (i) between the company and its directors or senior management personnel; and (ii) between a holder of overseas-listed foreign shares and a director or senior management personnel of the company, such disputes or claims will be referred to arbitration by the parties concerned. Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration. The award of the arbitral body is final and shall be binding on the parties thereto.

(16) Subsequent Listing

A PRC issuer must not apply for the listing of its foreign shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of its overseas-listed foreign shares are adequately protected.

(17) English Translation

All notices or other documents required under Chapter 13 of the Hong Kong Listing Rules to be sent by a PRC issuer to the Hong Kong Stock Exchange are required to be in English, or accompanied by a signed and certified English translation.

All documents (including accounts) provided by a PRC issuer in languages other than English must be accompanied by a signed and certified English translation. If so requested by the Hong Kong Stock Exchange, a person designated by the Hong Kong Stock Exchange shall be appointed in Hong Kong to provide additional translations at the expense of the PRC issuer.

(18) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, the Hong Kong Stock Exchange may impose additional requirements or make listing of equity securities by a PRC issuer subject to special conditions as the Hong Kong Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions.

Set out below is a summary of the principal provisions of the Articles, the principal objective of which is to provide investors with an overview of the Articles.

As of the information contained below is in summary form, it does not contain all the information that may be important to potential investors. Copies of the full English and Chinese text of the Articles are available for inspection as mentioned in "Appendix IX — Documents Delivered to the Registrar of Companies and Available for Inspection".

The Articles were adopted by our Shareholders in the annual general meeting for 2019 held on February 29, 2020 and were approved by CBIRC Shandong Office on March 27, 2020. The Articles will become effective on the date that our H Shares are listed on the Hong Kong Stock Exchange.

DIRECTORS AND OTHER SENIOR MANAGEMENT PERSONNEL

Power to Allot and Issue Shares

There is no provision in the Articles empowering the Directors to allot and issue shares.

To increase the registered capital of our Bank, the proposal must be submitted for approval by a special resolution at a Shareholders' general meeting.

Power to Dispose of the Assets of Our Bank or Any Subsidiary

For the disposal of any fixed assets by the Board, if the aggregate of the expected value of the fixed assets proposed to be disposed of and the value of the fixed assets which had been disposed of within four 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 prior approval of the Shareholders' general meeting.

The disposal of fixed assets referred to in this article includes the transfer of interests of certain assets, but excludes the provision of fixed assets as pledges to any guarantees.

Any breach of the first paragraph of this article shall not affect the validity of any transaction entered into by the Bank in disposing of fixed assets.

EMOLUMENTS AND COMPENSATION FOR LOSS OF OFFICE

The Bank shall enter into written contracts with the Directors and the Supervisors regarding remuneration which are subject to the prior approval from the Shareholders' general meeting. The aforesaid remunerations include:

(I) remuneration for the Directors, Supervisors or senior management personnel of the Bank;

(II) remuneration for the Directors, Supervisors or senior management personnel of the subsidiaries of the Bank;

(III) remuneration for those providing other services for managing the Bank and its subsidiaries companies;

(IV) compensation to Directors or Supervisors for loss of their office or upon retirement.

Except for the contracts mentioned above, the Directors and Supervisors shall not initiate litigation against the Bank and claim benefits due to them for the foregoing matters.

The remuneration contracts between the Bank and its Directors or Supervisors shall stipulate that if the Bank is acquired, the Directors and Supervisors of the Bank shall, subject to prior approval from the Shareholders' general meeting, be entitled to compensation or other funds for loss of their positions or upon retirement.

The acquisition of the Bank mentioned in the preceding paragraph refers to one of the following circumstances:

(I) a takeover offer made by any person to all Shareholders;

(II) a takeover offer made by any person with the intent of becoming the controlling Shareholder.

If the Directors and Supervisors concerned do not comply with this article, any funds received by them shall go to the persons who have accepted the offer mentioned above and sell their shares. The Directors and Supervisors shall bear the expenses arising from the distribution of such amounts proportionally, and such expenses shall not be deducted from the amounts.

LOANS TO DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank shall not, directly or indirectly, provide any loan or loan guarantee to the Directors, Supervisors, President and other senior management personnel of the Bank and of its parent company, nor shall the Bank provide the same to their connected persons.

The preceding provision shall not apply in the following circumstance:

(I) loans or loan guarantees provided by the Bank to its subsidiaries;

(II) loans, loan guarantees or other funds provided by the Bank to the Directors, Supervisors, President and other senior management personnel of the Bank for the payment of the expenses incurred for the purpose of the Bank or for the performance of their duties and responsibilities for the Bank pursuant to their employment contracts which were adopted by the Shareholders' general meeting;

(III) if the normal business activities of the Bank include provision of loans and loan guarantees, loans and loan guarantees provided by the Bank to the relevant Directors, Supervisors, President and other senior management personnel of the Bank and their connected persons, provided that the loans and loan guarantees are provided on normal commercial terms and conditions.

If the Bank provides a loan in breach of the provisions above, regardless of the terms of the loan the person who has received the loan or the borrower shall repay it immediately.

The Bank shall not be forced to execute the loan guarantee provided by it in violation of the first paragraph of Article 275 of the Articles, except in the following circumstances:

(I) The loan provider does not know that it has provided loans to the connected persons of the Directors, Supervisors and senior management personnel of the Bank;

(II) The guarantee provided by the Bank has been sold by the loan provider lawfully to a goodwill buyer.

The guarantee referred to in preceding articles of Chapter 11 of the Articles include the act of the guarantor to undertake liability or provide property to ensure fulfilment of obligations by the obligor.

FINANCIAL ASSISTANCE FOR THE ACQUISITION OF SHARES IN OUR BANK

The Bank (including its branches and sub-branches) or its subsidiaries shall not offer any financial assistance at any time by any means to purchasers who will or who wish to purchase the Bank's shares. The aforementioned purchasers shall include both persons who have directly or indirectly assumed obligations due to purchasing the Bank's shares.

The Bank (including its branches and sub-branches) or its subsidiaries shall not offer any financial assistance at any time by any means in order to reduce or relieve the obligations of the aforesaid obligors.

The provisions of this article do not apply to the circumstances set out in Article 44 of the Articles.

Financial assistance referred to in the Articles for these purposes shall include, without limitation, the following means:

(I) financial assistance given by gifts;

(II) financial assistance given by guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), indemnity (other than an indemnity in respect of the Bank's fault) 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 assignment of rights arising under such loans or agreement;

(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 obligations referred to in this chapter shall include the obligations of an obligor which have arisen by making an agreement or 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.

The acts listed below are not prohibited by Article 42 of the Articles, subject to any prohibitions by the relevant laws, administrative regulations, rules or rules governing securities of the place where shares of the Bank are listed:

(I) the financial assistance provided by the Bank is either genuinely for the interests of the Bank and the main purpose of the financial assistance is not to purchase shares of the Bank, or the financial assistance is an incidental part of the Bank's overall plans;

(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;

(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 taken from the Bank's distributable profits);

(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 this causes a reduction, the financial assistance is taken from the Bank's distributable profits).

Where the laws, administrative regulations, rules and rules governing securities of the place where shares of the Bank are listed have any other provisions in respect of the financial arrangement relating to the aforesaid share repurchase, such provisions shall prevail.

DISCLOSURE OF INTERESTS IN CONTRACTS WITH OUR BANK

The Directors or any associates thereof (as defined in the Hong Kong Listing Rules), Supervisors and senior management personnel of the Bank having any direct or indirect material conflict of interests in any executed or proposed contracts, transactions or arrangements (except the employment contracts between the Bank and its Directors, Supervisors and senior management personnel), regardless of whether such interests are usually subject to the approval or consent of the Board, such persons shall disclose the nature and extent of the interests to the Board as soon as possible.

Unless the Directors, Supervisors and senior management personnel of the Bank with conflicts of interest have disclosed their interests to the Board in accordance with the preceding paragraph of this article, 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 relevant Directors, Supervisors and senior management personnel are in breach of their obligations.

If the connected persons of any Director, Supervisor and senior management personnel of the Bank has any conflict of interests with any contracts, transactions or arrangements, the relevant Director, Supervisor and senior management personnel shall be deemed to have a conflict of interests as well.

Before the Bank considers entering into contracts, transactions or arrangements for the first time, and if the interested Directors, Supervisors and senior management personnel of the Bank have provided a written notice to the Board stating that they have a conflict of interests in the contracts, transactions or arrangements which would be entered into by the Bank in the future for the reasons set out in the notice, then the Directors, Supervisors and senior management personnel concerned shall be deemed to have made the disclosure as required in the preceding article of this chapter to the extent as set out in the notice.

The Bank shall arrange appropriate insurance cover in respect of legal action against its Directors.

REMUNERATION

The remuneration of Directors must be approved by Shareholders in a Shareholders' general meeting. Please see "— Emoluments and Compensation for Loss of Office" above.

APPOINTMENT, REMOVAL AND RETIREMENT

Directors shall have the expertise, work experience and quality as required for performing their duties, and have good professional ethics, and their qualifications shall be verified by the banking regulatory authorities. Directors shall be elected or removed from office by Shareholders at a Shareholders' general meeting, and shall serve a term of office of three years.

The Nomination and Remuneration Committee of the Board, or Shareholders individually or jointly holding above 1% of the Bank's shares can nominate candidates for independent Directors to the Board. Any Shareholder who has nominated a Director candidate shall not nominate a candidate for independent Director. The qualifications of such director candidates shall be verified by the Nomination and Remuneration Committee of the Board and elected at a Shareholders' general meeting. The qualifications of independent Directors shall be examined by the banking regulatory authorities of the PRC.

A Shareholder can only nominate a candidate for independent Director or external Supervisor and shall not nominate such candidate at the same time.

Independent Directors shall be at least one third of the total membership of the Board, and at least one independent Director shall have appropriate professional qualifications as specified in the Hong Kong Listing Rules, or shall have professional specialty in audit or related financial management.

The term of office of independent Directors at the Bank shall not be more than six years, and they shall serve no more than two terms.

The Board shall be composed of fifteen Directors, including a chairman and a vice chairman, of which the independent Directors shall be no less than one third of the total number of Directors.

The chairman and vice chairman of the Bank shall be elected and removed by more than half of all Directors of the Board, shall serve a term of three years, and is eligible for re-election.

No person shall hold the position of Director, Supervisor, or senior management personnel of the Bank in one of the following circumstances:

(I) a person without or with limited capacity for civil conduct;

(II) a person who has been penalized or sentenced due to corruption, bribery, embezzlement, appropriation of property or the disruption of the socialist market economy, and five years have not elapsed from which the punishment or deprivation of political rights for the crimes committed was carried out;

(III) a Director, factory Director or manager of bankrupt and liquidated companies or enterprises whereby such person was personally liable for the bankruptcy of such companies or enterprises, and three years have not elapsed from which the liquidation of the companies or enterprises was completed;

(IV) a legal representative of companies or enterprises which have had their business licenses revoked and the business of such companies or enterprises were compulsorily closed down due to a violation of laws in which such person was personally liable, and three years have not elapsed from which the business license of the company or enterprise was revoked, and a person who has been punished by relevant administrative authorities according to law for serious personal liability or direct leadership liability for illegal or incompliant operating activities or heavy losses of the institution he/she has worked for;

(V) a person or his/her spouse who owes relatively large amounts of due and outstanding debt, including but not limited to overdue loans from the financial institution; or a person who is engaging in high-risk investment obviously beyond his/her risk capacity in connection with his/her family property, and an individual or enterprise employee who has overdue loans from the Bank;

(VI) a person who has been removed by other commercial banks or organizations due to failure to fulfill the obligation of honesty;

(VII) a person who has been disqualified for life from being Director and senior management personnel or has been disqualified from being Director and senior management personnel for two times on a cumulative basis;

(VIII) a person who has been punished by relevant regulatory authorities for three times on a cumulative basis;

(IX) a person who has violated the principle of honesty for provision of false materials in fulfilling his/her work duties;

(X) a person who has obvious conflicts of interest with the duties of the proposed position as director or senior management personnel;

(XI) a person who has acted in violation of social morality, causing bad influences;

(XII) a person under investigation by judicial authorities for suspected violations of criminal law and the investigation is still ongoing;

(XIII) a person judged by relevant competent authorities as having violated the provisions of securities laws and regulations, the violation involves fraudulent or dishonest acts, and less than five years have elapsed since the ruling;

(XIV) a non-natural person;

(XV) other circumstances as stipulated by the laws, administrative regulations, departmental rules.

Where any Director is elected or appointed in violation of the provisions in this article, the said election or appointment shall be invalid. Where any Director gets involved in any of the circumstances in this article during his/her term of office, the Supervisory Committee shall request the Shareholders' general meeting to remove him/her as director.

CREDIT POWERS

The Board of the Bank shall formulate proposals for increases in or reductions of registered capital, issuance of bonds or other securities and listing plans of the Bank, and the Shareholders' general meeting shall resolve on the issuance of bonds or listing of the Bank by a special resolution. The chairman shall sign registered equity certificates, bonds and other negotiable securities of the Bank.

AMENDMENTS TO THE ARTICLES OF OUR BANK

Our Bank shall amend the Articles of Association in any of the following circumstances:

(I) after amendments are made to the Company Law, Commercial Banking Law or relevant laws, administrative regulations, departmental rules and relevant provisions, the Articles run counter to the said amendments;

(II) a change in the Bank causes inconsistence with those contained in the Articles;

(III) The Shareholders' general meeting has resolved to amend the Articles.

Any amendments to be made to the Articles pursuant to a resolution of the Shareholders' general meeting shall be subject to the approval of the competent authorities, and shall obtain the approval of the competent authorities; if the amendment to the Articles involves any content of Mandatory Provisions, the said amendment shall be subject to approval by the company examination and approval authority authorized by the State Council and the Securities Commission of the State Council; if registration matters are involved, the Bank shall apply for registration of the changes in accordance with the law.

CHANGE OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

If the Bank proposes to change or nullify certain rights of a certain class of Shareholders, this proposal should be passed by a special resolution at the Shareholders' general meeting and passed at the meeting convened according to Article 136 to Article 140 of the Articles for the related class of Shareholders.

The rights of a certain class of Shareholders shall be deemed to be changed or nullified in the following circumstances:

(I) to increase or reduce in the quantity of the shares of that class, or increase or reduce the quantity of the shares of other class which enjoy the same or more voting rights, distribution rights or other privileges;

(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 establish new class(es) of shares which enjoy the same or more voting rights, distribution rights or other privileges as compared with that class of shares;

(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;

(XII) to revise or nullify the provisions in this chapter.

Where issues specified in (II) to (VIII) and (XI) to (XII) of Article 135 are involved, the affected class Shareholders, whether or not they are entitled to vote at the Shareholders' general meetings originally, shall have the right to vote at class meetings. However, Shareholders with conflicts of interests shall not be entitled to vote at such class meetings.

Shareholders with conflicts of interests as specified in the preceding paragraph refer to:

(I) if the Bank has made a repurchase offer to all Shareholders in the same proportion in accordance with Article 30 of the Articles or has repurchased its own shares through public transaction on a stock exchange, "Shareholders with conflicts of interests" shall mean the controlling Shareholders defined in Article 352 of the Articles;

(II) if the Bank has repurchased shares under an off-market agreement in accordance with Article 30 of the Articles, "Shareholders with conflicts of interests" shall mean Shareholders who are connected with the aforementioned agreement;

(III) under a restructuring scheme of the Bank, "Shareholders with conflicts of interests" shall mean Shareholders who assume liability in a lower proportion than other Shareholders of the same class, or those who own different interests as compared with other Shareholders of the same class.

A resolution of a class meeting shall be adopted by above two-thirds of the voting shares represented by Shareholders of that class present at the meeting in accordance with Article 136.

When convening a class meeting, the Bank shall issue a written notice of the meeting at the same time as that of a non-class meeting to be convened together, to all Shareholders in the relevant class whose names appear on the register of members, stating the matters to be considered at the meeting and the date and venue of the meeting.

The quorum of various class meetings (excluding renewed meetings) convened to consider modifying the rights of any class of shares shall be at least one third of the total shares of the said class already issued.

The notice of a class meeting only needs to be delivered to the Shareholders entitled to vote at that meeting.

The procedures for convening a class meeting shall be the same as the procedures for the Shareholders' general meeting to the extent practical, and the provisions in the Articles relating to the procedure to convene a Shareholders' general meeting shall apply to the class meeting.

Apart from other classes of Shareholders, holders of domestic shares and overseas listed foreign shares are deemed to be Shareholders of different classes.

The special voting procedure at a Shareholders' general meeting for class Shareholders shall not apply for the following cases:

(I) upon the approval by way of a special resolution passed by a Shareholders' general meeting, the Bank independently or simultaneously issues domestic shares and/or overseas listed foreign shares every 12 months, provided that the amount of each class of shares intended to be issued is not more than 20% of the issued and outstanding shares of the respective class;

(II) the Bank's plan on issuing domestic shares and overseas listed foreign shares at the time of incorporation, which is completed within 15 months upon the date of approval from the securities regulatory authorities under the State Council;

(III) the relevant regulatory authorities such as banking regulatory authorities and the securities regulatory authorities under the State Council have given approval for unlisted shares held by the Shareholders of the Bank to be traded in overseas stock exchanges.

RESOLUTIONS — MAJORITY REQUIRED

The resolutions of a Shareholders' general meeting shall either be classified as ordinary resolutions or special resolutions.

Ordinary resolutions shall be approved by a simple majority of voting rights held by the Shareholders (including their proxies) attending the meeting.

Special resolutions shall be approved by above two-thirds of voting rights held by the Shareholders (including their proxies) attending the meeting.

VOTING RIGHTS

A Shareholder (including his/her proxy) shall exercise his/her voting rights based on the number of shares with voting rights he/she represents. Each share shall have one vote.

Shares held by the Bank have no voting rights and shall be excluded from the total number of voting shares represented by the Shareholders attending the Shareholders' general meeting. Pursuant to the laws, administrative regulations, rules governing securities of the place where shares of the Bank are listed, Hong Kong Listing Rules and the Articles, if any Shareholder must abstain from voting on any resolution or is restricted to declaring only affirmative vote or only dissenting vote on any resolution, then any vote declared by the said Shareholder or proxy thereof against the aforesaid provision or restriction shall not be counted in the voting result.

The Board, independent Directors and qualified Shareholders may openly collect voting rights from Shareholders. They shall adequately disclose specific information including voting intents to the persons whose voting rights are collected when collecting voting rights from Shareholders. It is prohibited to collect voting rights from Shareholders with compensation or compensation in disguised form. The Company shall not set minimum shareholding percentage limit for collection of voting rights.

Any vote of Shareholders at a Shareholders' general meeting must be taken by registered poll except where the presider of the meeting, based on the principle of honesty, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

If the matter required to be voted by ballot relates to election of chairman or termination of meeting, voting by ballot shall be conducted immediately; in respect of other matters required to be voted by ballot, the chairman of the meeting may decide the time of voting by ballot, and the meeting may proceed to consider other matters, and the voting results shall be deemed as resolutions passed at the said meeting.

In voting, Shareholders (including proxies thereof) entitled to two or more votes need not cast all their votes in the same way of pros or cons.

REQUIREMENT FOR ANNUAL GENERAL MEETINGS

The annual general meeting shall be held once a year within six months from the end of the previous fiscal year end. If the meeting is deferred under special circumstances, the Bank shall promptly report to the banking regulatory authorities of the PRC and explain the reason for deferral.

ACCOUNTS AND AUDIT

The Bank shall formulate its financial accounting system in accordance with the laws, administrative regulations, departmental rules and PRC accounting standards formulated by the competent financial authority under the State Council.

The Bank shall prepare financial reports at the end of each fiscal year, which reports shall be subject to legal examination and verification.

Our Bank shall publish its financial report twice each fiscal year, i.e. publish the interim financial report within 60 days after the end of the first six months of each fiscal year and publish its annual financial report within 120 days after the end of each fiscal year, which shall be audited by an accounting firm according to law. The said financial accounting report shall be prepared in accordance with relevant laws, administrative regulations and departmental rules. If the securities regulatory authorities at the place where shares of the Bank are listed have other provisions, such provisions shall apply.

The Board of Directors of the Bank shall place before the Shareholders at each annual general meeting a financial report prepared by the Bank as required by the relevant laws, administrative regulations and regulatory documents promulgated by the local government or competent authorities.

The financial report of our Bank shall be made available at our Bank 20 days or earlier before the convening of the annual general meeting for inspection by Shareholders. Each shareholder of our Bank shall be entitled to obtain the financial report mentioned in Chapter 13 of our Articles.

Except as otherwise provided in our Articles, the Bank shall send the aforesaid report or report of the Board along with the balance sheet and income statement or income and expenditure statement or abstract of financial report to each holder of H Shares by personal delivery or pre-paid post at least 21 days prior to the convening of the annual general meeting. The address of the recipients shall be the address registered in the register of H Shares.

If the securities regulatory authorities at the place where securities of the Bank are listed have other provisions, such provisions shall apply.

NOTICE OF MEETINGS AND BUSINESS TO BE CONDUCTED THEREAT

There are two types of Shareholders' general meetings: annual general meetings and extraordinary general meetings.

An extraordinary general meeting shall be convened within two 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 Company Law or less than two-thirds of the number stipulated in our Articles;

(II) the outstanding loss of the Bank is at least one-third of the Bank's total paid-up share capital;

(III) Shareholders who individually or jointly hold above 10% of the shares of the Bank have requested to convene the meeting;

(IV) the Board deems it necessary to convene the meeting;

(V) the Supervisory Committee proposes to convene the meeting;

(VI) above half of the independent Directors propose to convene the meeting;

(VII) any other circumstances as stipulated by the laws, administrative regulations, departmental rules, or our Articles.

In the case of (II) above, the time limit for convening an extraordinary general meeting shall be calculated from the day when the Bank becomes aware of the occurrence of the event.

In the case of (III) above, the number of shares held shall be calculated based on the date on which the Shareholders submit the written request.

When the Bank is to convene an annual general meeting, the conveners shall issue a notice, 20 workdays prior to the date of the meeting, to all Shareholders whose names appear on the register of members, stating the time and venue of the meeting and the matters to be considered at the meeting. A notice of extraordinary general meeting shall be served to all Shareholders 10 workdays or 15 days (whichever is earlier) prior to the date of the meeting.

If the securities regulatory authorities at the place where shares of the Bank are listed have provisions on a longer notice period for Shareholders' general meetings, such provisions shall apply.

Proposals not set out in the notice of Shareholders' general meeting or not complying with Article 88 of the Articles shall not be voted on or resolved at the Shareholders' general meeting.

The notice of a Shareholders' general meeting shall be made in writing and contain the following contents:

(I) the time, venue and duration of the meeting;

(II) the matters and proposals to be discussed at the meeting;

(III) a prominent statement that a Shareholder entitled to attend and vote at the Shareholders' general meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf and such proxy need not be a Shareholder of the Bank;

(IV) the shareholding registration date of Shareholders entitled to attend the Shareholders' general meeting;

(V) all necessary information and explanation to enable Shareholders to make informed decisions on the matters to be discussed. This means that when the following matters, which shall include, but shall not be limited to: any merger, share repurchase, share capital reorganization or other 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 proposed transaction shall be provided;

(VI) if any of the Directors, Supervisors or senior management personnel have material interest in the matters to be discussed, they shall disclose the nature and extent of such interest; and if the effects of the matters to be discussed have a different effect on a Director, Supervisor or senior management member as Shareholders compared to other Shareholders of that same class, they shall explain this difference;

(VII) the full text of any proposed special resolution to be voted on at the meeting;

(VIII) the time and address for serving the power of attorney for the voting proxy for the meeting;

(IX) the name and phone number of the contact person of the meeting;

(X) other requirements stipulated by laws, regulations, regulatory rules and our Articles.

Notices or supplementary notices of Shareholders' general meetings shall adequately and completely disclose the specific contents of all proposals. Where the opinions of an independent Director are required on the matters to be discussed, such opinions and reasons thereof shall be disclosed when the notices or supplementary notices of Shareholders' general meetings are served.

The interval between shareholding registration date and the date of the meeting shall not be more than seven workdays. The shareholding registration date shall not be changed once confirmed.

The Shareholders' general meeting shall be an organ of power of the Bank. It shall exercise the following powers in accordance with the law:

(I) to decide on the business policies and investment plans of the Bank;

(II) to elect and replace Directors and Supervisors which are not appointed as representatives of the employees and to decide on the remuneration of the relevant Directors and Supervisors;

(III) to examine and approve reports made by the Board;

(IV) to examine and approve reports made by the Supervisory Committee;

(V) to examine and approve the Bank's annual financial budget and final accounts;

(VI) to examine and approve the Bank's plans for profit distribution and loss recovery;

(VII) to adopt resolutions concerning the increase or reduction in the Bank's registered capital;

(VIII) to adopt resolutions concerning the issuance of bonds or the listing of the Bank;

(IX) to adopt resolutions concerning the merger, division, dissolution, liquidation, or change of the form of organization of the Bank;

(X) to amend our Articles;

(XI) to decide on the engagement, dismissal or discontinuation of the appointment of the accounting firm;

(XII) to examine and approve the matters concerning guarantee as specified in Article 76;

(XIII) to examine the purchase and disposal of fixed assets, external investment, purchase and sale of assets, asset mortgage, consigned financial management, etc. involving an amount exceeding 30% (exclusive) of the Bank's latest audited net assets, as well as especially significant related party transactions, etc.;

(XIV) to examine equity incentive plans;

(XV) to examine proposals raised by the Shareholders who hold above 3% of the total voting shares of the Bank;

(XVI) to examine other issues which should be decided by the Shareholders' general meeting as stipulated by the laws, administrative regulations, departmental rules as well as our Articles.

The aforesaid matters within the functions and powers of the Shareholders' general meeting shall be considered and decided by the Shareholders' general meeting. But, in necessary, reasonable and lawful circumstances, the Shareholders' general meeting may authorize the Board to make such decisions and such authorization shall be clear and specific in content.

With regard to authorization granted by the Shareholders' general meeting to the Board, if the matter should be approved by the Shareholders' general meeting via an ordinary resolution according to the Articles, it shall be passed by votes representing a majority of the voting rights held by the Shareholders (including their proxies) present at the meeting; and if the matter should be approved by the Shareholders' general meeting via a special resolution according to the Articles, it shall be passed by votes representing more than two thirds of the voting rights held by the Shareholders (including their proxies) present at the meeting.

The following matters shall be approved by an ordinary resolution at a Shareholders' general meeting:

(I) work reports of the Board of Directors and the Supervisory Committee;

(II) profit distribution plans and loss recovery plans proposed by the Board of Directors;

(III) appointment, dismissal, remuneration and payment method of the members of the Board of Directors and the Supervisory Committee;

(IV) the annual budget and final accounts, the balance sheet, statements of profits and other financial statements of the Bank;

(V) the annual reports of the Bank;

(VI) matters other than those required by the laws, administrative regulations or our Articles to be approved by a special resolution.

The following matters shall be approved by a special resolution at a Shareholders' general meeting:

(I) an increase or reduction in the registered capital and the issuance of any class of shares, warrants and other similar securities of the Bank;

(II) the issuance of bonds or listing of the Bank;

(III) the division, merger, dissolution, liquidation, or change of the form of organization of the Bank;

(IV) amendments to our Articles;

(V) the purchases or sales of major assets or guarantees in a year with the transaction amount exceeding 30% of the Bank's latest audited total assets;

(VI) equity incentive plans;

(VII) repurchase of the Bank's shares;

(VIII) other matters that are specified by laws, administrative regulations or the Articles of Association to be adopted by a special resolution and that, resolved by the Shareholders' general meeting by an ordinary resolution, may have a material effect on the Bank and should therefore be adopted by a special resolution.

TRANSFER OF SHARES

Unless otherwise specified by the laws, regulations and the rules of the securities regulatory authorities at the place where shares of the Bank are listed, the fully paid shares of the Bank may be transferred freely without any lien attached.

Registration shall be made in the local share registrar authorized by the Bank for the transfer of the shares of the Bank.

The Bank shall comply with laws, regulations and relevant rules of the banking regulatory authorities under the State Council and other relevant regulatory authorities in transferring its shares.

Shares of the Bank held by the promoters shall not be transferred within three years from the date of incorporation of the Bank as a joint-stock limited company. 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 and traded on a stock exchange. Shareholders of the Bank, especially major shareholders who intend to transfer the Bank's shares should notify the Board of Directors of the Bank in advance.

The Directors, Supervisors and other senior management personnel of the Bank shall report to the Bank their shareholdings in the Bank and changes thereof and shall not transfer more than 25% of the total shares held by them in the Bank per annum during their terms of office; the shares they hold in the Bank shall not be transferred within one year from the date on which the shares of the Bank are listed and traded. The aforesaid persons shall not transfer their shares in the Bank within half a year after they terminate service with the Bank.

Where the laws, regulations and rules governing securities of the place where shares of the Bank are listed have any other provisions in respect of the transfer of overseas listed foreign shares of the Bank, such provisions shall prevail.

Transfer of all H Shares shall be executed with a written transfer instrument in a common format or other format accepted by the Board (including the standard transfer format or transfer form specified by the Hong Kong Stock Exchange from time to time); the said written transfer instrument may be signed by hand, or be stamped with the corporate seal (if the transferor or the transferee is a company). Where the transferor or transferee is a recognized clearing house (the "Recognized Clearing House") as defined by relevant regulations in the laws of Hong Kong effective from time to time, or any of its agents, the written transfer instrument may be signed by hand or by print.

All transfer documents shall be kept at the legal address of the Bank or other place designated by the Board from time to time.

Pledge of Shares

Shareholders shall observe the following rules when they pledge the shares of the Bank:

(I) If the Shareholders pledge their shares in the Bank to provide guarantees for themselves or others, they shall comply with the laws, regulations and the requirements of regulatory authorities, and shall submit a written report to the Board of the Bank in advance; and shall submit a written report to the Bank on the date on which the said pledge is executed. The Office of the Board shall be responsible for collecting, sorting out and reporting the information on pledge of the Bank's shares and other daily works.

If Shareholders who are entitled to nominate candidates of the Directors and Supervisors of the Bank or Shareholder who can directly or indirectly hold or control above 2% of the shares or voting rights of the Bank pledge the shares of the bank, they shall make an application to the Board for filing in advance to state basic information such as reason for pledge, number of shares, duration of the pledge and the pledgee. Filing shall not be made if the Board determines that it has material adverse effect on the stability of the Bank's shareholding, corporate governance, risk and control on related party transactions. The Director(s) appointed by a Shareholder proposing to pledge his/her shares shall abstain from voting at the meeting of the Board at which such proposal is considered.

(II) Upon completion of shares pledge registration, Shareholders shall in a timely manner provide the Bank with relevant information regarding the pledge of shares in line with the Bank's risk management and information disclosure requirement.

(III) Shareholders shall not repledge the Bank's shares if the outstanding balance of the loans they have borrowed from the Bank exceeds the audited net book value of the shares held by them in the previous year.

(IV) When the shares pledged by a Shareholder reaches or exceeds 50% of its holding of shares in the Bank, the voting rights of such Shareholder at the Shareholders' general meetings and the voting rights of Directors appointed by such Shareholder at meetings of the Board shall be restricted.

The Bank does not accept shares of the Bank as the subject of pledges.

POWER OF OUR BANK TO REPURCHASE OUR OWN SHARES

The Bank may, in accordance with the provisions under the laws, administrative regulations, departmental rules and the Articles and with the approval by the relevant competent authorities of the state, repurchase its shares in the following circumstances:

(I) to reduce the registered capital of the Bank;

(II) to merge with another company that holds its shares;

(III) to use shares for employee stock ownership plan or equity incentives;

(IV) a Shareholder requests the Bank to purchase the shares held by him/her since he/she objects to a resolution of the Shareholders' general meeting on the combination or division of the Bank;

(V) to use shares for converting convertible corporate bonds issued by the Bank;

(VI) it is necessary for the Bank to protect the corporate value and the rights and interests of Shareholders;

(VII) any other circumstances as permitted by the laws, regulations and the relevant competent authorities.

Except for the circumstances set out above, the Bank shall not be engaged in any activities of buying and selling its shares.

The Bank purchasing its own shares under any of the circumstances set forth in items (I) and (II) above shall be subject to a resolution of the Shareholders' general meeting.

The Bank purchasing its own shares under any of the circumstances set forth in items (III), (V) and (VI) above may, pursuant to the Articles or the authorization of the Shareholders' general meeting, be subject to a resolution of a meeting of the Board of Directors at which more than two-thirds of Directors are present.

After purchasing its own shares pursuant to the provisions of the Articles, the Bank shall, under the circumstance set forth in item (I), cancel them within 10 days after the repurchase; while under the circumstance set forth in either item (II) or (IV), transfer or cancel them within six months; and while under the circumstance set forth in item (III), (V) or (VI), aggregately hold not more than 10% of the total shares that have been issued by the Bank, and transfer or cancel them within three years.

The Bank's repurchase of its own shares under the circumstances set out in items (III), (V) and (VI) under the Articles shall be conducted by way of open and centralized transaction.

With the approval of banking regulatory authorities for repurchasing its shares, the Bank may conduct the repurchase in one of the following manners:

(I) to make a repurchase tender offer to all Shareholders in the same proportion;

(II) to repurchase its own shares through public transaction on a stock exchange;

(III) to repurchase shares under an off-market agreement;

(IV) by other means as permitted by the laws, administrative rules and regulations and the relevant competent authorities.

After the repurchase of shares according to law, the Bank shall deregister or transfer the said shares before the deadline specified by the laws and administrative regulations, and shall have the change of the registered capital registered with the registration authority of the Bank after deregistration of the shares. The aggregate par value of the deregistered shares shall be deducted from the registered capital of the Bank.

A prior approval shall be obtained from a Shareholders' general meeting in respect of any share repurchased by the Bank through an off-market agreement instead of on a securities exchange in accordance with the provisions of the Articles. After the Shareholders' general meeting has given its approval in the same way, the Bank may rescind or alter any contracts entered into in the said manner or waive any rights under such contracts.

The aforesaid contract to repurchase shares includes, but not limited to, an agreement to become obliged to repurchase or to acquire the right to repurchase shares.

Unless the Bank is undergoing liquidation, it shall comply with the following requirements with respect to a repurchase of its issued shares:

(I) for repurchases of shares by the Bank at their par value, payment shall be made from the book balance of its distributable profits or from the proceeds of a new issuance of shares for that purpose;

(II) where the Bank repurchases its shares at a premium to its par value, payment up to the par value shall be made from the book balance of its distributable profits or from the proceeds of a new issuance of shares for that purpose. Payment of the portion which is in excess of the par value shall be made as follows:

1. If the shares being repurchased are issued at par value, payment shall be made from the book balance of its distributable profits;

2. If the shares being repurchased are issued at a premium to its par value, payment shall be made from the book balance of its distributable profits or from the proceeds of the new issuance of shares for that purpose. However, the amount deducted from the proceeds of the new issuance of shares shall not exceed the aggregate amount of the premium received by the Bank from the issuance of the shares so repurchased, nor shall it exceed the amount in the Bank's premium account or capital reserve fund account (including premium on the new issue) at the time of such repurchase;

(III) the Bank shall make the following payments from the Bank's distributable profits:

1. acquisition of the rights to repurchase its own shares;

2. variation of any contracts for the repurchase of its shares;

3. release from its obligations under any repurchase contracts;

(IV) after the aggregate par value of the cancelled shares is deducted from the Bank's registered capital in accordance with the relevant provisions, the amount deducted from the distributable profits used for the repurchase of the shares at par value shall be credited to the Bank's premium account or its capital reserve fund account.

RIGHT OF OUR SUBSIDIARIES TO THE SHARES IN OUR BANK

There are no provisions in the Articles preventing a subsidiary of our Bank from owning any of our shares.

DIVIDENDS AND OTHER METHODS OF PROFIT DISTRIBUTION

The Bank may distribute dividends in cash or by shares.

Our Bank shall appoint for holders of overseas listed foreign shares a recipient agent. The recipient agent shall collect on behalf of the Shareholders concerned the dividends distributed and other payables by the Bank in respect of the overseas listed foreign shares, and shall keep such monies on behalf of the Shareholders concerned for payment to them.

The recipient agent appointed by the Bank shall comply with the laws of the place where shares of the Bank are listed or the relevant requirements of the stock exchange where shares of the Bank are listed.

The recipient agent appointed by the Bank for holders of H Shares shall be a trust company registered under the Trustee Ordinance of Hong Kong.

PROXIES

Any Shareholder entitled to attend and having voting rights at a Shareholders' general meeting may attend the meeting in person or appoint one or more persons (these persons need not be Shareholders) as proxies to attend and vote on their behalf. A proxy may exercise the following rights according to the authorization of the Shareholders:

(I) the right of speech of the Shareholder at the Shareholders' general meeting;

(II) the right to demand or join other Shareholders in demanding a poll;

(III) the right to vote by hand or on a poll, but when more than one proxy has been appointed, the proxies only have the right to vote on a poll.

The power of attorney issued by a Shareholder to appoint a proxy to attend a Shareholders' general meeting shall be in written form and specify:

(I) the names of the authorized proxies and number of shares they represent;

(II) whether they have the right to vote;

(III) directive to vote for or against or abstain from voting on each issue considered in the agenda of the Shareholders' general meeting;

(IV) the date of issue and validity period of the power of attorney;

Where the signature of a proxy (Shareholder) is required, if the proxy is a corporate Shareholder, the legal representative of the proxy shall affix his/her signature and the corporate seal.

Any format of the power of attorney issued to a Shareholder by the Board of the Bank for appointing a proxy shall provide the Shareholder with the flexibility to instruct the proxy to vote for or against, and give directives on each of the resolutions to be decided at the meeting.

Such a power of attorney shall specify that in default of directives from the Shareholder, the proxy may vote as he/she thinks fit.

If the Shareholder is a Recognized Clearing House (or agent thereof), the said Shareholder may authorize one or more persons as it thinks fit to act on its behalf at any Shareholders' general meeting or class meeting; however, where several persons are thus authorized, the power of attorney shall specify the numbers and classes of shares involved by the said persons thus authorized, and shall be signed by the persons authorized by the Recognized Clearing House. The person thus authorized may represent the Recognized Clearing House (or agent thereof) in exercising its rights at any meeting (without being required to present share certificate, certified power of attorney and/or further evidence of due authorization) as if that person is an individual Shareholder of the Bank.

CALLS ON SHARES AND FORFEITURE OF SHARES

Provided that the relevant PRC laws, administrative regulations, rules and the Articles are observed, the Bank may exercise the right to seize dividends not collected, but the said right shall not be exercised before expiry of the relevant validity period.

Monies paid for any shares before the calls on shares shall have dividends, but the holders of such shares are not entitled to dividends declared later for the said monies.

Our Bank shall have the right to cease delivering dividend notice to the holders of H Shares by mail, but such right can only be exercised after the dividend notice has not been drawn twice consecutively. If a dividend notice fails to reach the expected recipient in the initial mail delivery and is returned, the Bank may exercise the right promptly.

Our Bank shall have the right to sell the shares of the holders of H Shares through the methods the Board deems appropriate and subject to the following conditions:

(I) the Bank has distributed dividends on such shares at least three times in a period of 12 years and the dividends are not claimed by anyone during that period;

(II) after the expiration of the twelve-year period, the Bank makes a public announcement in one or more newspapers in the place where shares of the Bank are listed, stating its intention to sell such shares and notifies the securities regulatory authorities at the place where shares of the Bank are listed of the intention.

RIGHTS OF SHAREHOLDERS (INCLUDING INSPECTION OF REGISTER OF MEMBERS)

The Shareholders of ordinary Shares of our Bank shall enjoy the following rights:

(I) to receive dividends and other kinds of distributions as determined by the number of shares held by them;

(II) attend or appoint a proxy to attend Shareholders' general meetings, and to exercise corresponding voting rights;

(III) to supervise the business operations of the Bank, and to make suggestions and enquiries accordingly;

(IV) to transfer, bestow or pledge shares held by them in accordance with the laws, administrative regulations and the Articles;

(V) to apply for obtaining relevant information in accordance with the laws, regulations, regulatory provisions and the Articles, including:

1. to obtain a copy of the Articles after paying the costs and expenses incurred; and

2. have the right to inspect and photocopy, after paying a reasonable fee, the following documents:

(1) all parts of the register of members;

(2) the personal information of the Directors, Supervisors and senior management personnel of our Bank, including:

(a) current and former names and aliases;

(b) primary address (domicile);

(c) nationality;

(d) full-time and all other part-time occupations and positions;

(e) identification documents and their numbers;

(3) share capital of the Bank;

(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 latest audited financial statements, Directors' reports, auditors' report and report of the Supervisory Committee as announced by the Bank;

(7) the special resolutions of our Bank;

(8) a copy of the latest annual report and annual return already submitted to the State Administration for Industry and Commerce of PRC or other competent bodies.

Except the documents set out in (2) above, the Bank shall, according to the Hong Kong Listing Rules, keep the above documents in (1) to (8) at the Hong Kong address of the Bank for the free inspection by the public and holders of overseas listed foreign Shares. Documents set out in (5) are for inspection by Shareholders only. Shareholders may have access to copies of the minutes of Shareholders' general meeting free of charge during the office hours of the Bank. If any Shareholder asks for copies of relevant meeting minutes, the Bank shall send out the said copies within seven days after receipt of reasonable expenses. The Bank may refuse to provide any of the aforesaid documents if the documents to be inspected and photocopied contain the trade secrets and price sensitive 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 dissolution 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 or the Articles.

Save as otherwise provided by laws, regulations or the Articles, if any person who directly or indirectly have interests exercises the rights attached to his/her shares in the Bank without disclosing such interests to the Bank, the Bank shall not freeze or otherwise damage any rights enjoyed by the said person based on his/her shares in the Bank for this reason.

Shareholders who shall seek approval from but fail to report to regulatory authorities shall not exercise such rights as the right to request convening the Shareholders' general meeting, voting right, right of nomination, proposal right and right of disposition. For any Shareholder who has made any false statement, abuses Shareholder's rights or has other acts that harm the interests of the Bank, the banking regulatory authorities of the PRC may restrict or prohibit any related party transactions between the Bank and him/her and restrict the quota of a commercial bank's equity held by him/her and equity pledge ratio as well as his/her rights including the right to request convening the Shareholders' general meeting, voting right, right of nomination, right of making motions and right of disposition.

QUORUM FOR MEETINGS AND SEPARATE CLASS MEETINGS

If the Bank convenes a class meeting, the period for sending a written notice shall be the same as the period for written notice of a non-class meeting to be convened with the said class meeting. The written notice shall notify all the Shareholders in the relevant class whose names appear on the register of members of the matters to be considered at the meeting and the date and venue of the meeting.

The quorum of various class meetings (excluding renewed meetings) convened to consider modifying the rights of any class of shares shall be at least one third of the holders of the shares of the said class already issued.

RIGHTS OF MINORITY SHAREHOLDERS

In addition to the obligations required under the laws, regulations, regulatory provisions or the listing rules of the place where shares of the Bank are listed, when exercising their rights as a Shareholder, controlling shareholders shall not exercise their voting rights and make decisions on the following issues as these issues are detrimental to the interests of all or some of the Shareholders:

(I) relieving a Director or Supervisor of their responsibility to act in good faith and in the best interests of the Bank;

(II) approving a Director or a Supervisor in depriving the Bank of its assets in any form, including but not limited to any business opportunities that are advantageous to the Bank, regardless of whether the deprivation is made for the Director, or Supervisor's benefit or for the benefit of others;

(III) 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.

The "controlling shareholder(s)" as referred to in the Articles shall refer to the Shareholder(s) satisfying any of the following conditions:

1. the Shareholder may elect more than half of the Directors when acting alone or in concert with others;

2. the Shareholder may exercise or control the exercise of above 30% of the total voting shares of the Bank when acting alone or in concert with others;

3. the Shareholder holds above 30% of shares of the Bank when acting alone or in concert with others;

4. the Shareholder may de facto control the Bank in any other manner when acting alone or in concert with others.

"Acting in concert" mentioned in the preceding paragraph means that two or more Shareholders reach an agreement (verbal or written) in private, whereby any of them obtains the voting rights over the Bank in order to control the Bank.

PROCEDURES ON LIQUIDATION

Upon approval or consent by the banking regulatory authorities of the PRC, the Bank shall be dissolved and liquidated according to laws in any of the following circumstances:

(I) business term expires;

(II) if the Shareholders' general meeting resolves to do so;

(III) if a dissolution is necessary as a result of a merger or division;

(IV) if the business license of the Bank is revoked or if it is ordered to close down its business or if it is canceled due to violation of laws or administrative regulations;

(V) where the operation and management of the Bank falls into serious difficulties and its continued existence would cause material losses to Shareholders, the Shareholders holding above 10% of the total voting rights of the Bank may apply to the people's court to dissolve the Bank if there are no other solutions;

(VI) the Bank is declared bankrupt due to its failure to repay debts due.

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 12 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 committee shall follow the instructions of the Shareholders' general meetings and shall report to the Shareholders' general meeting at least once a year on the income and expenditure of the liquidation committee, the business of the Bank and the progress of the liquidation, and shall make a final report to the Shareholders' general meeting at the end of the liquidation.

OTHER PROVISIONS MATERIAL TO OUR BANK AND OUR SHAREHOLDERS

General Provisions

After consideration and approval by the Shareholders' general meeting and approval by the banking regulatory authorities, the Articles shall become effective from the date when H Shares to be compiled of the Bank are to be compiled on the Hong Kong Stock Exchange. From the date on which the Articles become effective, the original Articles shall become invalid automatically.

The Bank may increase its capital as follows in the light of its business and development needs, in accordance with the relevant laws and regulations, resolutions made at the Shareholders' general meeting and upon approval by relevant regulatory authorities including banking regulatory authorities of the PRC:

(I) public offering of shares;

(II) non-public offering of shares;

(III) placing new shares to existing Shareholders;

(IV) distributing new shares to existing Shareholders;

(V) transferring reserve funds to increase share capital according to provisions;

(VI) other methods stipulated by laws and administrative regulations.

The Bank's increase of capital by issuing new shares shall be conducted in accordance with the procedures provided in relevant laws, regulations and regulatory provisions, after being approved according to the Articles.

Shareholder of ordinary Shares of our Bank shall have the following obligations:

(I) to abide by the laws, administrative regulations, departmental rules, regulatory provisions and the Articles;

(II) to contribute to the share capital as determined by the number of shares subscribed by them and the prescribed method of capital contribution;

(III) not to withdraw their contributed share capital except in circumstances allowed by the laws and regulations;

(IV) not to abuse Shareholder's right to harm the interests of the Bank or other Shareholders; not to abuse the independent status of legal person or Shareholder's limited liability to harm the interests of creditors of the Bank;

if any Shareholder of the Bank misuses his/her Shareholder's right, thereby causing any loss to the Bank or other Shareholders, the said Shareholder shall be liable for compensation according to law;

if any Shareholder abuses the independent status of legal person of the Bank or Shareholder's limited liability or evades debts, thereby seriously damaging the interests of the creditors of the Bank, the said Shareholder shall bear joint liability for the Bank's debts;

(V) to protect the Bank's interests and reputation and support the Bank's legal operations;

(VI) when the capital adequacy ratio of the Bank fails to meet legal requirements, the Shareholders shall support the measures proposed by the Board of Directors to raise the capital adequacy ratio; substantial Shareholders shall make long-term commitments to the Bank on contribution of additional capital in written form and supplement capital to the Bank if necessary as part of the capital plan of the Bank;

(VII) to strictly follow the relevant provisions of the banking regulatory authorities of the PRC on payment risks of commercial banks in case of payment gaps or liquidity difficulties;

(VIII) to assume other obligations required by the laws, administrative regulations and the Articles.

Shareholders shall not be liable for making any additional contribution to the share capital of the Bank other than according to the terms agreed by the subscriber of the shares at the time of subscription.

Directors' Qualification Shares

The Articles do not provide restrictions on Directors' holding of shares in the Bank.

BOARD OF DIRECTORS

The Board of Directors shall exercise the following functions and powers:

(I) to convene Shareholders' general meetings and report its performance at the Shareholders' general meetings;

(II) to implement resolutions of Shareholders' general meetings;

(III) to decide on operational plans and investment programs of the Bank;

(IV) to formulate annual financial budget reports and final account reports of the Bank;

(V) to formulate profit distribution plan and loss recovery plan of the Bank;

(VI) to formulate proposals for increases in or reductions of registered capital, issuance of bonds or other securities and listing plans of the Bank;

(VII) to formulate plans for merger, separation, dissolution, or change in corporate structure of the Bank;

(VIII) to decide on matters such as external investments, acquisition and sale of assets, pledge of assets, entrusted wealth management and related party transactions of the Bank within the scope of authorization of the Shareholders' general meeting;

(IX) to decide on setup of internal management bodies of the Bank;

(X) to decide on setup, merger and cancellation of branches of the Bank;

(XI) to appoint or dismiss the Bank's President and secretary to the Board as nominated by the chairman of the Board; to appoint or dismiss the Bank's senior management personnel such as vice president and chief financial officer as nominated by the president; and to determine their remunerations, rewards and punishments;

(XII) to formulate the basic management system of the Bank;

(XIII) to formulate proposals for any amendment to the Articles;

(XIV) to formulate proposals for repurchase of the Bank's shares;

(XV) to formulate the Bank's information disclosure system and to manage the Bank's information disclosure;

(XVI) to make proposal at the Shareholders' general meeting for appointment or replacement, dismissal or non-renewal of an accounting firm providing audit services for the Bank;

(XVII) to listen to the work report of the President of the Bank and inspect his work;

(XVIII) to review any significant capital expenditures, contracts and commitments that exceed the spending limits set by the Board for senior management;

(XIX) to formulate a plan for the sale or transfer of all or most of the business or assets of the Bank;

(XX) to approve green credit strategies;

(XXI) to formulate strategies, policies and objectives for the protection of consumer's rights and interests, to urge the senior management of the whole Bank to effectively carry out and implement relevant work, to regularly listen to the senior management's special report on this work, and to supervise and evaluate the comprehensiveness, promptness and effectiveness of the Bank's consumer rights protection work and the performance of the senior management in this respect, with the relevant work as the important content of information disclosure;

(XXII) to establish a communication mechanism with the Shareholders' general meeting, the party committee and the Supervisory Committee on major issues to provide truthful information and reports;

(XXIII) to regularly evaluate and improve the Bank's corporate governance to ensure that the corporate governance mechanism provides appropriate protection and equal rights for all Shareholders of the Bank;

(XXIV) to exercise any other functions and powers prescribed by the laws, administrative regulations, rules and the Articles of Association and authorized by the Shareholders' general meetings.

Board meetings include regular meetings and extraordinary meetings.

Regular meetings of the Board shall be held at least once every quarter, and shall be convened by the chairman of the Board. A written notice of the meeting shall be made to all the Directors and Supervisors 14 days before the date of the meeting, and the agenda and relevant documents shall be delivered to all Directors three days before the meeting is held.

The Board shall notify the Supervisors to attend the Board meeting as non-voting delegates.

The decisions, resolutions and meeting minutes of the Board shall be reported to the banking regulatory authorities in China for the record within 10 days after the conclusion of the meeting.

Resolutions of the Board shall be voted on as per "one person, one vote" system.

Supervisory Committee

The Supervisory Committee is the supervisory body of the Bank which shall be accountable to the Shareholders' general meeting.

The Supervisory Committee of the Bank consists of nine Supervisors, including one chairman, the appointment and removal of whom shall be made with a resolution passed by above two-thirds of the all members of the Supervisory Committee.

The chairman of the Supervisory Committee shall convene and preside over Supervisory Committee meetings; where the chairman of the Supervisory Committee cannot or does not fulfil the duty thereof, more than half of the Supervisors may jointly elect a Supervisor to convene and preside over Supervisory Committee meetings.

The Supervisory Committee shall comprise shareholder representatives and an appropriate proportion of employee representatives and external Supervisors, which proportion shall not be lower than one third of the total number of members of the Supervisory Committee. The employee representatives in the Supervisory Committee shall be elected democratically at the employee representatives' meeting, employees' meeting or in other forms. Shareholder representatives shall be elected and removed at Shareholders' general meetings, and employee representatives shall be elected and removed democratically by the employees of the company.

The Supervisory Committee shall exercise the following functions and powers:

(I) to carry out review and give written review opinions on the regular reports on the Bank prepared by the Board of Directors; verify the financial information such as the financial report, business report and profit distribution proposal to be submitted by the Board to the Shareholders' general meetings and to appoint, in the name of the Bank, certified public accountants and practicing auditors to assist in the re-examination of such information should any doubt arise in respect thereof;

(II) to examine our financial activities;

(III) to supervise the behaviors of the Directors and senior management personnel in their performance of their duties in our Bank and to propose the removal of Directors and senior management personnel who have violated laws, administrative regulations, the Articles of Association or resolutions of the Shareholders' general meetings;

(IV) to supervise the due diligence of Directors, chairman and senior management personnel;

(V) when the acts of a Director, senior management personnel of the Bank are detrimental to its interests, to require the aforementioned persons to correct these acts;

(VI) to propose the convening of extraordinary Shareholders' general meeting and to convene and preside over Shareholders' general meeting when the Board fails to perform the duty of convening and presiding over Shareholders' general meetings;

(VII) to submit proposals to the Shareholders' general meetings;

(VIII) to bring actions against the Directors and senior management personnel in accordance with Article 151 of the Company Law;

(IX) to conduct investigation when noticed unusual operation condition of the Bank, and if necessary, to engage professional organs such as accounting firm and law firm for assistance, fee of which shall be undertaken by the Bank;

(X) to conduct post-office-auditing of Directors and senior management personnel as required and to guide the work of the internal audit department of the Bank;

(XI) to audit the Bank's business decisions, risk management and internal control;

(XII) to question Directors, chairman and senior management personnel;

(XIII) to exercise any other functions and powers prescribed by the laws, regulations, and rules.

The Supervisory Committee shall have a supervision committee and a nomination committee. The person-in-charge of the supervision committee and the nomination committee shall be the external Supervisors.

Regular meetings of the Supervisory Committee shall be held at least once every quarter.

The resolution of the Supervisory Committee shall be adopted by more than two-thirds of all Supervisors by voting, except as otherwise provided by laws, administrative regulations, rules or relevant regulatory authorities.

PRESIDENT

The President shall be accountable to the Board and shall organize the operation and management activities of the Bank in accordance with the laws, regulations, rules, our Articles of Association and the authorization of the Board.

The President shall perform the following functions and powers:

(I) to propose to the Board to appoint or dismiss vice president, chief financial officer and other senior management personnel of the Bank;

(II) to appoint or dismiss persons in charge of the functional departments and branches of the Bank other than those to be engaged or dismissed by the Board;

(III) to submit the annual business management plan and investment plan to the Board on behalf of the senior management personnel, and to organize the implementation upon approval by the Board;

(IV) to authorize other senior management personnel, persons in charge of internal functional departments and branches to engage in operating activities;

(V) to draft internal management institution setting plan of the Bank;

(VI) to adopt emergency measures when any material emergency (such as a run on the Bank) arises and promptly report them to the banking regulatory authorities in China, the Board of Directors and the Supervisory Committee;

(VII) to draft the Bank's basic management system;

(VIII) to formulate the Bank's specific regulations;

(IX) to preside over the daily operation and management of the Bank, to organize the implementation of the resolutions of the Board, and to report the work to the Board;

(X) other functions and rights that should be exercised by the President conferred by laws, regulations, rules and the Articles of Association.

The President shall attend Board meetings, and if he is not a Director, he shall not have any voting right at Board meetings.

Secretary to the Board

The Board shall have a secretary, who is a senior management personnel of the Bank and shall be accountable to the Board.

The secretary to the Board shall be a natural person with requisite professional knowledge and experience, and his main duties include:

(I) address and coordinate information disclosure of the Bank, organize the formulation of information disclosure management system of the Bank, and urge the Bank and relevant information disclosure obligors to observe relevant provisions concerning information disclosure;

(II) manage investor relations, coordinate information communication between the Bank, the banking regulatory authorities in China, and other state regulatory agencies, investors, media, etc.

(III) organize and arrange for Board meetings and Shareholders' general meetings, attend Shareholders' general meetings, Board meetings, Supervisory Committee meetings and meetings related to senior management personnel, and take and sign Board meeting minutes;

(IV) follow the media reports and take the initiative to verify the authenticity of such reports;

(V) organize trainings for the Bank's Directors, Supervisors and senior management personnel on laws, administrative regulations, departmental rules and relevant provisions, and assist them in understanding their duties in information disclosure;

(VI) notify the relevant personnel and report to the relevant regulatory authorities when he becomes aware that the Bank's Directors, Supervisors and senior management personnel have violated laws, administrative regulations, departmental rules, other regulatory documents and the Articles of Association of the Bank, or that the Bank has made or may make decisions in violation of relevant provisions;

(VII) take charge of equity management affairs, ensure that the Bank's register of members is established appropriately and that the persons who have the right of access to the relevant records and documents of the Bank obtain the same in due time;

(VIII) keep the data of the shares held by the Bank's Directors, Supervisors, senior management personnel, controlling shareholders and their directors, supervisors and senior management personnel, ensure that the Bank has complete organizational documents and records, and disclose the changes in the shares held by the Directors, Supervisors and senior management personnel of the Bank;

(IX) ensure that the Bank legally prepares and submits reports and documents as required by the competent authorities; and

(X) perform other duties required by the Company Law, the Commercial Bank Law and the banking regulatory authorities in China.

RESOLUTION OF DISPUTES

The Bank shall abide by the following rules for dispute resolution:

(I) If any disputes or claims in relation to the Bank's business, with respect to any rights or obligations under the Articles of Association, the Company Law or any other relevant laws and administrative regulations, arise between holders of overseas listed foreign shares and the Bank, between holders of overseas listed foreign shares and the Bank's Directors, Supervisors and senior management personnel, or between holders of overseas listed foreign shares and holders of domestic shares, the parties concerned shall submit such disputes or claims to arbitration.

When the aforementioned disputes or claims are submitted to arbitration, such disputes or claims shall be submitted in their entirety, and all persons (being the Bank, the Bank's Shareholders, Directors, and senior management personnel) that have a cause of action based on the same grounds or the persons whose participation is necessary for the resolution of such disputes or claims, shall comply with the arbitration.

Disputes with respect to the definition of Shareholders and disputes concerning the register of Shareholders need not be resolved by arbitration.

(II) An applicant may choose for the arbitration to be arbitrated either by the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once a claimant submits a dispute or claim to arbitration, the other party must carry out the arbitration at the arbitration institution selected by the claimant.

If an applicant opts for arbitration by the Hong Kong International Arbitration Centre, either party may request for the arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

(III) Unless otherwise provided by the laws, regulations, or regulatory provisions, the laws of the PRC shall apply to the settlement of any disputes or claims described in item (I) above that are resolved by arbitration.

(IV) The award of the arbitration institution shall be final and binding on all parties.

TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current effective laws and practices, and no predictions are made on changes or adjustments in relevant laws or policies, and no opinions or suggestions are made based on them. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares, nor does it take into account the specific circumstances of any particular investor, some of which may be subject to special regulation. Accordingly, you should consult your own tax advisor regarding the tax consequences of an investment in the H Shares. The discussion is based upon laws and relevant interpretations in effect as of the date of this document, all of which are subject to change and may have retrospective effect.

This discussion does not address any aspects of PRC or Hong Kong taxation other than income tax, capital gain and profit tax, business tax/appreciation tax, stamp duty and estate duty. Prospective investors are urged to consult their financial advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

The PRC Taxation

Taxation on Dividends

Individual Investors

Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) (the "**IIT Law**"), which was last amended on August 31, 2018 and the Regulations on Implementation of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》), which was last amended on December 18, 2018, dividends paid by PRC enterprises are subject to a PRC individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to an individual income tax of 20% unless specifically exempted or applied by the tax authority of the State Council or reduced by an applicable tax treaty.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document Guo Shui Fa 1993 No. 045 (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by the SAT on June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to individuals resident overseas under the tax treaty, withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are citizens of contracting countries that have entered into a tax treaty with the PRC with tax rates lower than 10%, the non-foreign-invested enterprise whose Shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax treatments, and, upon approval by the tax authorities, the amount which is over withheld will be refunded. For the individual holders of

H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates higher than 10% but lower than 20%, the non-foreign-invested enterprise is required to withhold the tax at the agreed rate under the agreements, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are citizens of countries without taxation agreements with the PRC or are under other situations, the non-foreign-invested enterprise is required to withhold the tax at a rate of 20%.

Enterprise Investors

In accordance with the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "**CIT Law**"), which came into effect and was last amended as of January 1, 2008 and December 29, 2018, and the Implementation provisions for the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) which was last amended on April 23, 2019 and came into effect as of January 1, 2008, a non-resident enterprise is generally subject to a 10% corporate income tax on PRC-sourced income (including dividends received from a PRC resident enterprise that issues shares in Hong Kong), if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place in the PRC. The income tax may be reduced pursuant to applicable treaties to avoid double taxation. Such withholding tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due.

The Circular on Issues Relating to the Withholding of Corporate Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) which was issued by the SAT on November 6, 2008, further clarified that a PRC-resident enterprise must withhold corporate income tax at a rate of 10% on dividends paid to overseas non-resident enterprise shareholders of H Shares for 2008 and subsequent years. In addition, the Response to Questions on Levying Corporate Income Tax on Dividends Derived by Non-resident Enterprise from Holding Stock such as B-shares (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批復》) (Guo Shui Han [2009] No. 394) which was issued by the SAT and came into effect on July 24, 2009, further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold corporate income tax at a rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further modified pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, PRC Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the Chinese company. If a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. The Fifth 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>第五議定書》) effective on December 6, 2019 states that such provisions shall not apply to arrangement or transaction made for the primary purpose of gaining such tax benefit. The application of the dividend clause of tax agreements shall be subject to the PRC tax laws and regulations, such as the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81).

Tax Treaties

Non-PRC resident investors residing in countries which have entered into treaties for the avoidance of double taxation with the PRC or residing in Hong Kong or Macau are entitled to a reduction of the withholding taxes imposed on the dividends received from PRC companies. The PRC currently has Avoidance of Double Taxation Treaties/Arrangements with a number of countries and regions including HK, Macau, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant income tax agreements or arrangements are required to apply to the Chinese tax authorities for a refund of the withholding tax in excess of the agreed tax rate, and the refund payment is subject to approval by the Chinese tax authorities.

Taxation on Share Transfer

Value-Added Tax ("VAT") and Local Surcharges

Pursuant to the Notice on the Full Implementation of Pilot Program for Transition from Business Tax to VAT (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36, "**Circular 36**"), effective from May 1, 2016, entities and individuals engaged in sales of services within the PRC shall be subject to VAT and 'sales of services within the PRC' refers to the situation where either the seller or the buyer of a taxable service is located within the PRC. Circular 36 also provides that transfer of financial products, including transfer of the ownership of marketable securities, shall be subject to VAT at 6% on the taxable turnover (which is the balance of sales price upon deduction of purchase price), for a general or a foreign VAT taxpayer. However, individuals are exempt from VAT upon transfer of financial products.

In accordance with these rules, upon the sale or disposal of H shares, the holders are exempt from VAT in the PRC if they are non-resident individuals; in case the holders are non-resident enterprises, they may not be subject to the VAT in the PRC if the purchasers of the H shares are individuals or entities located outside of the PRC whereas the holders may be subject to the VAT in the PRC if the purchasers of the H shares are individuals or entities located in the PRC.

However, in absence of explicit rules, there remains uncertainty in the interpretation and application of the foregoing rules as to whether the disposal of H Shares by non-PRC resident enterprises is subject to PRC VAT.

Meanwhile, VAT taxpayers are also subject to urban maintenance and construction tax, education surcharge and local education surcharge (collectively, "local surcharges"), which is usually at 12% of the VAT payable, if any.

Income Tax

Individual Investors

According to the IIT Law and its implementation provisions, gains realized on the sale of equity interests in the PRC resident enterprises are subject to the individual income tax at a rate of 20%.

Pursuant to the Circular of the MOF and the State Administration of Taxation Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the MOF and the State Administration of Taxation on March 20, 1998, from January 1, 1997, income of individuals from transfer of shares in listed enterprises continues to be exempted from individual income tax. The State Administration of Taxation has not stated whether it will continue to exempt individual income tax on income of individuals from transfer of listed shares in the latest amended Individual Income Tax Law and the Implementation Rules of IIT Law.

However, on December 31, 2009, the MOF, the State Administration of Taxation and CSRC jointly issued the Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》(Cai Shui [2009] No. 167) which states that individuals' income from transfer of listed shares on certain domestic exchanges shall continue to be exempted from individual income tax, except for the relevant shares which are subject to sales restriction (as defined in Supplementary Notice on Issues Concerning the Levy of Individual Income Tax on Individuals' Income from the Transfer of Restricted Stocks of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) (Cai Shui [2010] No. 70). As of the Latest Practicable Date, no aforesaid provisions have expressly provided that whether individual income tax shall be collected from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges, and to the best of our knowledge, in practice there are no laws and regulations expressly stipulating that income tax is levied on the income of non-PRC resident individuals from selling shares of PRC resident enterprises listed on overseas stock exchanges.

Enterprise Investors

In accordance with the CIT Law and its implementation provisions, a non-resident enterprise is generally subject to a 10% corporate income tax on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or place in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not connected in reality with such establishment or premise. Such income tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. The withholding tax may be reduced or exempted pursuant to applicable treaties or agreements on avoidance of double taxation.

Stamp Duty

Pursuant to the Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例》) effective as of October 1, 1988 and amended on January 8, 2011, and the Detailed Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例實施細則》) effective as of October 1, 1988, PRC stamp duty only applies on specific proof executed or received within the PRC and having legally binding force in the PRC and protected under the PRC laws, thus the requirements of the stamp duty imposed on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

Estate Duty

As of the date of this document, no estate duty has been levied in China under the PRC laws.

Hong Kong Taxation

Tax on Dividends

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of H shares. However, trading gains from the sale of the H shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment purposes.

Trading gains from sales of the H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of the H shares, will be payable by the purchaser on every purchase and by the seller on every sale of any Hong Kong securities, including H shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to 10 times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished estate duty in respect of deaths occurring on or after February 11, 2006.

PRINCIPAL TAXATION OF OUR BANK BY THE PRC

Corporate Income Tax

Pursuant to the CIT Law, enterprises and other organizations which generate income within the PRC are corporate income tax payers and shall pay corporate income tax at a tax rate of 25%.

Business Tax/Appreciation Tax

Pursuant to Notice on Implementing the Pilot Reform for Transition from Business Tax to Value-added Tax Nationwide issued by the MOF and SAT (《關於全面推開營業税改徵增值税試點的通知》) (Cai Shui [2016] No. 36) promulgated on March 23, 2016 and effective from May 1, 2016, from May 1, 2016 onwards, the pilot reform for the transition from business tax to VAT ("**Business Tax to VAT**") is implemented nationwide, and the financial industry is included in such pilot and is required to pay VAT instead of Business Tax. Pursuant to the Implementation Measures for Transition from Business Tax to Value-added Tax (《營業税改徵增值税試點實施辦法》), unless otherwise provided in the implementation measures, the tax rate is generally 6% for tax payers who conducted taxable behaviors. The Bank started to calculate and pay VAT instead of business tax since May 1, 2016.

TAXATION OF OUR BANK IN HONG KONG

Our Directors do not consider that any of our Bank's income is derived from or arises in Hong Kong for the purpose of Hong Kong taxation. Our Bank will therefore not be subject to Hong Kong taxation on income not sourced from or derived from Hong Kong.

FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is currently subject to foreign exchange control and is not freely convertible into foreign exchange. The SAFE, under the authorization of the PBoC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated Regulations of the PRC for Foreign Exchange Control (《中華人民共和國外匯管理條例》) (the "**Foreign Exchange Control Regulations**") which became effective on April 1, 1996. The Foreign Exchange Control Regulations classifies all international payments and transfers into current items and capital items. Most of the current items are no longer subject to SAFE's approval, while capital items still are. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and August 5, 2008. The latest amendment to the Foreign Exchange Control Regulations clearly states that the State will not impose any restriction on international current payments and transfers.

On June 20, 1996, PBoC promulgated the Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (the "**Settlement Regulations**") which became effective on July 1, 1996. The Settlement Regulations abolished the remaining restrictions on convertibility of foreign exchange under current items, while retaining the existing restrictions on foreign exchange transactions under capital account items.

According to the Announcement on Issues regarding Improving the Reform of the Renminbi (《關於完善人民幣匯率形成機制改革的公告》) (PBoC Announcement [2005] No. 16), issued by PBoC on July 21, 2005 and effective on the same date, the PRC began to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies. The Renminbi exchange rate was no longer pegged to the U.S. dollar. PBoC would publish the closing price of the exchange rate of the Renminbi against trading currencies such as the U.S. dollar in the interbank foreign exchange market after the closing of the market on each working day, as the central parity of the currency against Renminbi transactions on the following working day.

Starting from January 4, 2006, PBoC introduced over-the-counter transactions into the interbank spot foreign exchange market for the purpose of improving the formation mechanism of the central parity of Renminbi exchange rates, and the practice of matching was kept at the same time. In addition to the above, PBoC introduced the market-maker rule to provide liquidity to the foreign exchange market. On July 1, 2014, PBoC further improved the formation mechanism of the RMB exchange rate by authorizing the China Foreign Exchange Trade Center to make inquiries with the market makers before the interbank foreign exchange market opens every day for their offered quotations which are used as samples to calculate the central parity of the RMB against the USD on that day using the weighted average of the remaining market makers' offered quotations after excluding the highest and lowest quotations, and announce the central parity of the RMB against currencies such as the USD at 9:15 a.m. on each working day. On August 11, 2015, PBoC announced to improve the central parity quotations of RMB against the USD by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Center before the interbank foreign exchange market opens every day with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates.

On August 5, 2008, the State Council promulgated the revised Regulations for Foreign Exchange Control, which have made substantial changes to the foreign exchange supervision system of the PRC. First, it has adopted an approach of balancing the inflow and outflow of foreign exchange. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities; second, it has improved the RMB exchange rate floating system based on market supply and demand under management; third, in the event that international balance of payment 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 against international balance of payment; fourth, it has enhanced the supervision and administration of foreign exchange transactions and grant extensive authorities to the SAFE to enhance its supervisory and administrative powers.

According to the relevant laws and regulations in the PRC, PRC enterprises (including foreign investment enterprises) which need foreign exchange for current item transactions may, without the approval of the SAFE, effect payment from foreign exchange accounts at the designated foreign exchange banks, on the strength of valid transaction receipt or evidence. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange (such as our Bank) may, on the strength of resolutions of the board of directors or the shareholders' meeting on the distribution of profits, effect payment from foreign exchange accounts at the designated foreign exchange banks or effect exchange and payment at the designated foreign exchange banks.

On October 23, 2014, the State Council promulgated the Decisions on Matters including Canceling and Adjusting a Batch of Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) (Guo Fa [2014] No. 50), which canceled the approval requirement of the SAFE and its branches for the remittance and settlement of the proceeds raised from the overseas listing of the foreign shares into RMB domestic accounts.

On December 26, 2014, the SAFE issued the Notice of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》), pursuant to which a domestic company shall, within 15 business days of the date of the end of its overseas listing issuance, register the overseas listing with the SAFE's local branch at the place of its establishment; the proceeds from an overseas listing of domestic company may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the prospectus and other disclosure documents.

According to the Notice of the State Administration of Foreign Exchange of the PRC on Revolutionize and Regulate Capital Account Settlement Management Policies (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No. 16) issued by the SAFE on June 9, 2016, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions. The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjust of the SAFE in due time in accordance with international revenue and expenditure situations.

1. FURTHER INFORMATION ABOUT OUR BANK

A. Establishment

Our Bank is a city commercial bank headquartered in Weihai City, Shandong Province, the PRC. As approved by the PBoC, our Bank was established as a joint stock commercial bank on July 21, 1997 under the name of "Weihai City Cooperation Bank Co., Ltd. (威海城市合作銀行股份有限公司)", which was established and promoted jointly by seven non-individual shareholders including Weihai Municipal Finance Bureau and the original shareholders of five credit cooperatives, namely Zhongxin Cooperatives (中心社), Xinwei Cooperatives (新威社), Xinghai Cooperatives (興海社), Zhenxing Cooperatives (振興社) and Shuntong Cooperatives (順通社). At the time of establishment, the registered capital of our Bank was RMB100,644,909, divided into 100,644,909 Domestic Shares with a nominal value of RMB1.00 each.

On April 17,1998, as approved by the PBoC Shandong Branch, the name of our Bank was changed from Weihai City Cooperation Bank Co., Ltd. to "Weihai City Commercial Bank Co., Ltd. (威海市商業銀行股份有限公司)".

The registered address of our Bank is 9 Baoquan Road, Weihai City, Shandong Province, the PRC. Our Bank has established a principal place of business in Hong Kong at 40/F, Sunlight Tower, 248 Queen's Road East, Wan Chai, Hong Kong, and have applied to be registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on April 6, 2020. Ms. TAM Pak Yu, Vivien has been appointed as our agent for the acceptance of service of process and notices on behalf of our Bank in Hong Kong. Our address for acceptance of service of process in Hong Kong is the same as the address of our principal place of business in Hong Kong.

We conduct our banking business in the PRC under the supervision and regulation of CBIRC and PBoC. We are not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), and are not subject to the supervision of the HKMA, nor authorized to carry on banking and/or deposit-taking business in Hong Kong.

As we are established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix V. A summary of certain relevant provisions of our Articles of Association is set out in Appendix VI.

B. Changes in Registered Capital of our Bank

At the time of our establishment, the registered capital of our Bank was RMB100,644,909, divided into 100,644,909 Domestic Shares with a nominal value of RMB1.00 each. Since the establishment of our Bank, there have been several increases of the share capital of our Bank.

Immediately following the Global Offering (assuming the Over-allotment Option is not exercised), our total issued share capital will be 5,848,468,344 Shares, consisting of 4,971,197,344 Domestic Shares and 877,271,000 H Shares, which represent approximately 85.00% and 15.00% of our total issued share capital, respectively.

Immediately following the Global Offering (assuming the Over-allotment Option is exercised in full), our total issued share capital will be 5,980,058,344 Shares, consisting of 4,971,197,344 Domestic Shares and 1,008,861,000 H Shares, which represent approximately 83.13% and 16.87% of our total issued share capital, respectively.

C. Restriction on Share Repurchase

For details of the restriction on the share repurchase by our Bank, please see Appendix V — "Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and Appendix VI — "Summary of Articles of Association".

D. Resolutions of Our Shareholders

Resolutions were passed on the Shareholders' general meeting on February 29, 2020, pursuant to which, among other things:

(a) the Global Offering, the Listing and the Over-allotment Option were approved;

(b) our Board of Directors and the persons authorized by our Board of Directors were authorized to handle all matters relating to the Listing; and

(c) certain amendments to our articles of association in compliance with the requirements of the Listing Rules and other applicable laws and regulations were approved.

On February 29, 2020, our Board of Directors and the authorized persons approved by the Board of Directors were authorized to make further amendments to our articles of association according to the opinions given by the relevant regulatory authorities of the PRC and Hong Kong. The relevant amendments will become effective from the Listing Date.

E. The Bank's Subsidiary and Changes in the Share Capital of the Bank's Subsidiary

Save as disclosed below, there has been no alteration in the share capital of the Bank's subsidiary within the two years preceding the date of this prospectus. On March 27, 2020, Shandong CBIRC approved the increase of registered capital of Tongda Financial Leasing Co. from RMB1.0 billion to RMB1.1 billion. As at the Latest Practicable Date, the relevant industrial and commercial registration in respect of the same with the competent registration authorities has been completed.

2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of Our Material Contracts

We entered into the following contracts (not being contracts entered into in our ordinary course of business) within the two years preceding the date of this prospectus, which are or may be material:

(1) a subscription agreement dated December 10, 2018 entered into between our Bank and Weihai Municipal Finance Bureau (威海市財政局), pursuant to which Weihai Municipal Finance Bureau (威海市財政局) agreed to subscribe for up to 182,553,059 shares of our Bank at a total consideration of RMB511,148,565.20, and the definitive amount of consideration shall be subject to approval of the regulatory authorities and the results of filling of valuation with the State-owned assets authorities;

(2) a subscription agreement dated December 14, 2018 entered into between our Bank and Wendeng City Senlu Tanning Co., Ltd. (文登市森鹿製革有限公司), pursuant to which Wendeng City Senlu Tanning Co., Ltd. (文登市森鹿製革有限公司) agreed to subscribe for up to 47,678,738 shares of our Bank at a total consideration of RMB133,500,466.40, and the definitive amount of consideration shall be subject to approval of the regulatory authorities and the results of filling of valuation with the State-owned assets authorities;

(3) a subscription agreement dated December 24, 2018 entered into between our Bank and Weihai Minshang Investment Co., Ltd. (威海閩商投資股份有限公司), pursuant to which Weihai Minshang Investment Co., Ltd. (威海閩商投資股份有限公司) agreed to subscribe for up to 4,000,000 shares of our Bank at a total consideration of RMB11,200,000.00, and the definitive amount of consideration shall be subject to approval of the regulatory authorities and the results of filling of valuation with the State-owned assets authorities;

(4) a capital increase agreement dated March 9, 2020 entered into among our Bank, Shandong New Beiyang Information Technology Co., Ltd. (山東新北洋信息技術股份有限公司), Wendeng City Senlu Tanning Co., Ltd. (文登市森鹿製革有限公司) and Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司), pursuant to which Wendeng City Senlu Tanning Co., Ltd. (文登市森鹿製革有限公司) agreed to subscribe for RMB100,000,000.00 of the registered capital of Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司) at a total consideration of RMB132,300,000.00; and

(5) the Hong Kong Underwriting Agreement.

B. Intellectual Property Rights

(a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks, which are or may be material to our business.

No.	Trademark	Place of Registration	Classes(1)	Registration No.	Valid Period
1.		PRC	36	5757986	January 21, 2020 to January 20, 2030
2.	威海市商业银行 WEIHAI CITY COMMERCIAL BANK	PRC	36	5757985	April 28, 2020 to April 27, 2030
3.	威海市商业银行	PRC	36	19081068	March 14, 2017 to March 13, 2027
4.	威海市商业银行 WEIHAI CITY COMMERCIAL BANK	PRC	36	19081142	March 14, 2017 to March 13, 2027
5.	(A) 威海市商业银行 WEIHAI CITY COMMERCIAL BANK	Hong Kong	36	305237073	April 1, 2020 to March 31, 2030
	(B) 威海市商业银行 WEIHAI CITY COMMERCIAL BANK	Hong Kong	36	305237073	April 1, 2020 to March 31, 2030
6.	(A)	Hong Kong	36	305237064	April 1, 2020 to March 31, 2030
	(B)	Hong Kong	36	305237064	April 1, 2020 to March 31, 2030

Note:

(1) For details of the classification of goods for trademarks, please see the paragraph headed "— 2. Further Information about Our Business — B. Intellectual Property Rights — (b) Classification of Goods for Trademarks".

(b) Classification of Goods for Trademarks

The table below sets out the classification of goods for trademarks (the detailed classification in relation to the relevant trademarks depends on the details set out in the relevant trademark certificates and may differ from the list below):

Class Number	Goods
36	Insurance; financial affairs; monetary affairs; real estate affairs

(c) Domain Names

As of the Latest Practicable Date, our Bank has registered the following domain names, which are or may be material to our business:

No.	Domain Name	Class of Domain Name	Owner	Effective Period
1.	whccb.com	International	Bank	January 5, 2004 to January 5, 2025
2.	whccb.com.cn	PRC	Bank	January 5, 2004 to January 5, 2025

Save as disclosed herein, there are no other trademarks, copyrights, domain names, patents or other intellectual or industrial property rights which are or may be material to our business.

C. Our Depositors and Borrowers

Our five largest depositors and five largest borrowers accounted for less than 30% of the respective total customer deposits and gross customer loans as of the Latest Practicable Date.

3. FURTHER INFORMATION ABOUT OUR SUBSTANTIAL SHAREHOLDERS, DIRECTORS, MANAGEMENT AND STAFF

A. Substantial Shareholder

For detailed information on the persons who, as far as the Directors are aware, will have or be deemed or taken to have interests and/or short positions in the Shares or underlying Shares which would be required to be disclosed to our Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at the general meetings of our Bank, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), see "Substantial Shareholders" in this prospectus.

B. Disclosure of the Directors' and Supervisors' interests in our issued share capital or our associated corporations

Save as disclosed below, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), none of our Directors, Supervisors and chief executive will have any interests or short positions in the Shares, underlying Shares or debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or any interests or short positions, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules which will be required to be notified to us and the Hong Kong Stock Exchange upon the Listing, or any interests or short positions, pursuant to section 352 of the SFO, which will be required to be entered in the register referred to therein. For this purpose, the relevant provisions of the SFO shall be construed as if they are applicable to our Supervisors.

Interests in our Bank

Directors

Name of Director	Capacity	Class of Shares	Number of Domestic Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the Domestic Shares
Tan Xianguo (譚先國)	Beneficial Owner	Domestic Shares	491,426	0.008%	0.010%
Zhang Renzhao[1] (張仁釗)	Beneficial Owner	Domestic Shares	495,656	0.008%	0.010%
	Interest of spouse	Domestic Shares	113,752	0.002%	0.002%
Bi Qiubo (畢秋波)	Beneficial Owner	Domestic Shares	498,985	0.009%	0.010%
Tao Zunjian (陶遵建)	Beneficial Owner	Domestic Shares	143,804	0.002%	0.003%

Note:

(1) Mr. Zhang Renzhao is deemed to be interested in 113,752 Domestic Shares held by his spouse, Ms. Qu Wenwei (曲文微), by virtue of the SFO.

Supervisors

Name of Supervisors	Capacity	Class of Shares	Number of Domestic Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the Domestic Shares
Liu Changjie (劉昌傑)	Beneficial Owner	Domestic Shares	499,105	0.009%	0.010%
Deng Wei (鄧衛)	Beneficial Owner	Domestic Shares	497,611	0.009%	0.010%
Zhang Xuening[(1)] (張雪凝)	Beneficial Owner	Domestic Shares	173,769	0.003%	0.003%
	Interest of spouse	Domestic Shares	117,214	0.002%	0.002%

Note:

(1) Ms. Zhang Xuening is deemed to be interested in 117,214 Domestic Shares held by her spouse, Mr. Xu Qiang (許強), by virtue of the SFO.

C. Particulars of Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we will enter into a service contract with each of our Directors and Supervisors in respect of, among other things, compliance with relevant laws and regulations, observation of the Articles of Association and provisions on arbitration. Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors or Supervisors (other than contracts expiring or determinable by the employer within one year without payment of any compensation (other than statutory compensation)).

D. Directors' and Supervisors' Remuneration

The aggregate amounts of remuneration paid by us to our Directors and Supervisors for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020 were approximately RMB15.18 million, RMB14.80 million, RMB15.37 million and RMB2.62 million, respectively.

It is estimated that remuneration equivalent to approximately RMB15.12 million in aggregate will be paid to the Directors and Supervisors by our Bank for the year ending December 31, 2020 based on the arrangements in force as of the date of this prospectus and historical data in 2020.

E. Personal Guarantees

No Director or Supervisor has provided personal guarantees for the benefit of the lenders in connection with any banking facilities granted to our Bank.

F. Agency Fees or Commissions Paid or Payable

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed in "— 4. Other Information — E. Qualification of Experts" had received any commissions, discounts, agency fees, brokerages or other special terms from us in connection with the issuance or sale of any of our capital within the two years preceding the date of this prospectus.

G. Disclaimers

Save as disclosed in this prospectus:

(a) none of the Directors, Supervisors or the parties listed in "— 4. Other Information — E. Qualification of Experts" is:

(i) interested in our promotion, or in any assets which have, within the two years immediately preceding the date of this prospectus, been acquired or disposed of by or leased to our Bank, or are proposed to be acquired or disposed of by or leased to our Bank;

(ii) materially interested in any contract or arrangement subsisting as of the date of this prospectus which is significant to our business;

(b) save in connection with the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the parties listed in "— 4. Other Information — E. Qualification of Experts":

(i) is interested legally or beneficially in any of our Shares or our securities; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our Shares or any of our securities;

(c) none of our Directors or Supervisors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares of our Bank that has to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO after the Listing; and

(d) so far as is known to any Director or chief executive of our Bank, no person has an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings, once our H Shares are listed on the Hong Kong Stock Exchange.

4. OTHER INFORMATION

A. Estate Duty

Our Directors have been advised that currently there is no material liability for estate duty under PRC law that is likely to be imposed on us.

B. Litigation

Save as disclosed in "Business — Legal and Administrative Proceedings", our Bank is not involved in any litigation, arbitration or administrative proceedings of material importance as of the Latest Practicable Date, and so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us as of the Latest Practicable Date.

C. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Hong Kong Stock Exchange for the listing of, and permission to deal in, our H Shares to be issued (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Joint Sponsors satisfy the independence criteria set out in Rule 3A.07 of the Listing Rules.

We have entered into an engagement agreement with the Joint Sponsors pursuant to which we agreed to pay a total amount of RMB2.7 million to the Joint Sponsors to act as the sponsors to our Bank in the Global Offering.

D. Preliminary Expenses

Our Bank has not incurred any material preliminary expenses.

E. Qualification of Experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice in this prospectus are as follows.

Name	Qualifications
Huatai Financial Holdings (Hong Kong) Limited	Licensed corporation under the SFO permitted 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 9 (asset management) regulated activities as defined under the SFO
China International Capital Corporation Hong Kong Securities Limited	Licensed corporation under the SFO permitted 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 under the SFO
CMB International Capital Limited	Licensed corporation under the SFO permitted to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
BDO Limited	Certified Public Accountants under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)
	Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Beijing Dentons Law Offices, LLP	Legal advisors as to PRC laws

F. No Material Adverse Change

Notwithstanding the outbreak of the pandemic, our Directors confirm that there has been no material adverse change in our financial or trading position or prospect since March 31, 2020 (being the date on which our latest audited financial statements were made up) to the date of this prospectus.

G. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

H. Miscellaneous

Save as disclosed in this prospectus:

(a) within the two years preceding the date of this prospectus, (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash; (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any shares of our Bank; and (iii) no commission had been paid or payable (but not including commission to sub-underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Bank;

(b) no share or loan capital is under option or is agreed conditionally or unconditionally to be put under option;

(c) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;

(d) none of our equity and debt securities is listed or dealt with on any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(e) there are no arrangements under which future dividends are waived or agreed to be waived;

(f) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;

(g) there are no contracts for hire or hire purchase of any plant to or by us for a period of over one year which are substantial in relation to our business;

(h) there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months;

(i) there are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from overseas;

(j) we have no outstanding convertible debt securities; and

(k) we currently do not intend to apply for the status of a sino-foreign investment joint stock limited company and do not expect to be subject to the Sino-foreign Joint Venture Law of the PRC.

I. Consents

Each of Huatai Financial Holdings (Hong Kong) Limited, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, BDO Limited and Beijing Dentons Law Offices, LLP has given and has not withdrawn its written consents to the issue of this prospectus with the inclusion of its report, letter and/or opinion (as the case may be) and the references to its name included herein in the form and context in which it respectively appears.

J. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

K. Promoters

Our promoters comprised of seven non-individual shareholders including Weihai Municipal Finance Bureau and the original shareholders of five credit cooperatives, namely Zhongxin Cooperatives (中心社), Xinwei Cooperatives (新威社), Xinghai Cooperatives (興海社), Zhenxing Cooperatives (振興社) and Shuntong Cooperatives (順通社).

Save for the Global Offering and as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits has been paid, allotted or given, or has been proposed to be paid, allotted or given, to any of the promoters in connection with the Global Offering or the transactions described in this prospectus.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) copies of the Application Forms;

(b) the written consents referred to in the paragraph headed "4. Other Information — I. Consents" in Appendix VIII to this prospectus; and

(c) copies of the material contracts referred to in the paragraph headed "2. Further Information about Our Business — A. Summary of Our Material Contracts" in Appendix VIII to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Paul Hastings at 21-22/F, Bank of China Tower, 1 Garden Road, Hong Kong, during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

(a) the Articles of Association;

(b) the accountants' report from BDO Limited in respect of the consolidated financial information of the Group for each of the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, the text of which is set forth in Appendix I to this prospectus;

(c) the report from BDO Limited in respect of the unaudited interim financial information of the Group for the six months ended June 30, 2020, the text of which is set forth in Appendix II to this prospectus;

(d) the unaudited supplementary financial information of the Group, the text of which is set out in Appendix III to this prospectus;

(e) the report from BDO Limited in respect of the unaudited pro forma financial information of the Group, the text of which is set forth in Appendix IV to this prospectus;

(f) the audited consolidated financial statements of the Group for each of the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020;

(g) the material contracts referred to in the paragraph headed "2. Further Information about Our Business — A. Summary of Our Material Contracts" in Appendix VIII to this prospectus;

(h) the written consents referred to in the paragraph headed "4. Other Information — I. Consents" in Appendix VIII to this prospectus;

(i) the service contracts referred to in the paragraph headed "3. Further Information about Our Substantial Shareholders, Directors, Management and Staff — C. Particulars of Service Contracts" in Appendix VIII to this prospectus;

(j) the legal opinions issued by Beijing Dentons Law Offices, LLP, the legal advisors of our Bank as to the PRC laws, in respect of, among other things, the general matters and property interests of our Group; and

(k) the following PRC laws and regulations, together with unofficial English translations thereof:

  (i) the PRC Company Law;

  (ii) the PRC Securities Law;

  (iii) the Special Regulations;

  (iv) the Mandatory Provisions;

  (v) the Provisional Regulations Concerning the Issue and Trading of Shares;

  (vi) the PRC Arbitration Law;

  (vii) the PRC Civil Procedure Law; and

  (viii) the PRC Commercial Banking Law.

威海市商业银行
WEIHAI CITY COMMERCIAL BANK

威海市商業銀行股份有限公司
WEIHAI CITY COMMERCIAL BANK CO., LTD.