IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES. THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular (the "**Offering Circular**"). You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: This Offering Circular is being sent to you at your request and by accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to represent to BOSC International Company Limited, China Construction Bank (Asia) Corporation Limited, Merrill Lynch (Asia Pacific) Limited, Crédit Agricole Corporate and Investment Bank, ABCI Capital Limited, Agricultural Bank of China Limited Hong Kong Branch, Bank of China Limited, China Everbright Securities (HK) Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, Dongxing Securities (Hong Kong) Company Limited, Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited, Industrial and Commercial Bank of China (Asia) Limited, Nanyang Commercial Bank, Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, Standard Chartered Bank and Zhongtai International Securities Limited (the "**Joint Lead Managers**") that (1) you and any customers you represent are not located in the United States (as defined under Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")), (2) the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (3) you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached Offering Circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Joint Lead Managers, the Trustee or the Agents (as defined in the attached Offering Circular) or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any of them nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Restrictions: The attached document is being furnished in connection with an offering in offshore transactions in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of the issuer of the securities or the Joint Lead Managers, the Trustee or the Agents to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the issuer in such jurisdiction.

You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in 309A of the SFA) that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

Actions that You May Not Take: If you receive this document by e-mail, you should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "**Reply**" function on your e-mail software, will be ignored or rejected.

IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other destructive items. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

BOSCI (BVI) LIMITED

(incorporated with limited liability in the British Virgin Islands)

with the benefit of a Keepwell Deed provided by

上海银行
Bank of Shanghai

BANK OF SHANGHAI CO., LTD.

(上海銀行股份有限公司)

(incorporated with limited liability in the People's Republic of China)

U.S.$300,000,000 1.250 PER CENT. CREDIT ENHANCED BONDS DUE 2023

with the benefit of an irrevocable Standby Letter of Credit provided by China Construction Bank Corporation, Hong Kong Branch

ISSUE PRICE: 99.988 per cent.

The 1.250 per cent. credit enhanced bonds due 2023 in the aggregate principal amount of U.S.$300,000,000 (the "**Bonds**") will be issued by BOSCI (BVI) Limited (the "**Issuer**"). The Issuer is a direct subsidiary of BOSC International Company Limited, which is an indirect wholly-owned subsidiary of Bank of Shanghai Co., Ltd (上海銀行股份有限公司)(the "**Bank**"). Payments of principal and interest in respect of the Bonds will have the benefit of an irrevocable standby letter of credit (the "**Standby Letter of Credit**") denominated in U.S. dollars and issued by China Construction Bank Corporation, Hong Kong Branch (the "**LC Bank**"). See "*Appendix – Form of Standby Letter of Credit*" for the form of the Standby Letter of Credit.

The Bank, the Issuer and Citicorp International Limited (the "**Trustee**") will enter into a keepwell deed (the "**Keepwell Deed**"), as more fully described under "*Description of the Keepwell Deed*". **The Keepwell Deed does not constitute a direct or indirect guarantee by the Bank of the obligations of the Issuer under the Bonds and may not give rise to a debt claim in the event of any insolvency proceedings in relation to the Bank.**

The Bonds will bear interest from 10 September 2020 at the rate of 1.250 per cent. of their principal amount per annum. Interest on the Bonds is payable semi-annually in arrear on the Interest Payment Date (as defined in the terms and conditions of the Bonds, the "**Terms and Conditions of the Bonds**" or the "**Conditions**") falling on 10 March and 10 September in each year. Payments on the Bonds will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands or the PRC (as defined herein) or any political subdivision thereof or any authority therein or thereof having power to tax, to the extent described under "*Terms and Conditions of the Bonds – Taxation*".

The Bonds will constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed on 10 September 2023 at their principal amount. The Bonds are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of, the British Virgin Islands or the PRC or any political subdivision or any authority thereof or therein having power to tax, to the extent described under "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for tax reasons*".

The Bonds may be redeemed at the option of the holders at 100 per cent. of their principal amount, together with accrued interest, upon the occurrence of a Change of Control. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Change of Control*". The Bonds are subject to mandatory redemption at their principal amount, together with the accrued interest, where the Issuer fails to pre-fund principal or interest payable on the Bonds (i) in respect of an Interest Payment Date or (ii) upon the exercise by the holders of their redemption option upon a Change of Control (as defined herein) under the Terms and Conditions of the Bonds. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Mandatory redemption upon Pre-funding Failure*". The Bonds are further subject to mandatory redemption at their principal amount, together with accrued interest, immediately upon the Standby Letter of Credit ceasing to be enforceable, valid or in full force and effect or upon being modified, amended or terminated without the Trustee's consent. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Mandatory redemption upon Standby Letter of Credit ceasing to be enforceable*".

Pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資 [2015] 2044號))(the "**NDRC Circular**") issued by the National Development and Reform Commission of the PRC ("**NDRC**") on 14 September 2015 which came into effect on the same day, the Bank has registered the issuance of the Bonds with the NDRC and obtained a certificate from the NDRC on 4 August 2020 evidencing such registration, which remains valid, in full force and effect as of the date of this Offering Circular. The Bank intends to provide the requisite information on the issuance of the Bonds to the NDRC within the prescribed timeframe after the Issue Date.

Investing in the Bonds involves certain risks. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and the merits and risks of investing in the Bonds in the context of their financial position and particular circumstances. Investors should also have the financial capacity to bear the risks associated with an investment in the Bonds. Investors should not purchase the Bonds unless they understand and are able to bear risks associated with the Bonds. See "*Risk Factors*" beginning on page 23 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

The Bonds and the Standby Letter of Credit have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States (as defined in Regulation S under the Securities Act ("Regulation S")). The Bonds are being offered only outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers and sales of the Bonds, the Standby Letter of Credit and the distribution of this Offering Circular, see "*Subscription and Sale*".

The denomination of the Bonds will be U.S.$200,000 each and integral multiples in excess of U.S.$1,000 thereof.

Approval-in-principle has been received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the listing and quotation of the Bonds. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Approval in-principle obtained for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Bank or the Group (as defined herein) or the merits of the Bonds.

The Bonds will be represented by beneficial interests in a global bond certificate (the "**Global Bond Certificate**") in registered form which will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**", together with Euroclear, the "**Clearing Systems**") on 10 September 2020 (the "**Issue Date**"). Beneficial interests in the Global Bond Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, individual bond certificates will not be issued in exchange for interests in the Global Bond Certificate.

The Bonds are to be rated "A1" by Moody's Investors Service, Inc. ("**Moody's**"). Such rating of the Bonds does not constitute a recommendation by Moody's to buy, sell or hold the Bonds and may be subject to suspension, reduction, revision or withdrawal at any time by Moody's. Such rating should be evaluated independently of any other rating of the other securities of the Issuer, the Bank or the LC Bank or of the Issuer, the Bank or the LC Bank.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

BOSC International

China Construction Bank (Asia)

BofA Securities

Crédit Agricole CIB

Joint Lead Managers and Joint Bookrunners

ABC International

Agricultural Bank of China Limited Hong Kong Branch

Bank of China

China Minsheng Banking Corp., Ltd., Hong Kong Branch

Dongxing Securities (Hong Kong)

Everbright Sun Hung Kai

Guotai Junan International

Haitong International

ICBC (Asia)

Nanyang Commercial Bank

Shanghai Pudong Development Bank Hong Kong Branch

Standard Chartered Bank

Zhongtai International

Offering Circular dated 2 September 2020

IMPORTANT NOTICE

Each of the Issuer and the Bank accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries and to the best of its knowledge and belief, that (i) this Offering Circular contains all information with respect to the Issuer, the Bank and its subsidiaries (collectively the "**Group**"), the Bonds, the Keepwell Deed and the Standby Letter of Credit which is material in the context of the issue, offering, sale, marketing or distribution of the Bonds (including all information which is required by all applicable laws or, according to the particular nature of the Issuer, the Bank, the Group and of the Bonds, the Keepwell Deed and the Standby Letter of Credit is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Bank, the Group and of the rights attaching to the Bonds, the Keepwell Deed and the Standby Letter of Credit); (ii) this Offering Circular does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading; (iii) the statements contained herein, or incorporated by reference into this Offering Circular, are in every material respect true and accurate and not misleading, and there are no other facts in relation to the Issuer, the Bank, the Group, the Bonds, the Keepwell Deed and the Standby Letter of Credit, the omission of which would, in the context of the issue, offering, sale, marketing or distribution of the Bonds, make any statement in this Offering Circular misleading; (iv) all statistical, industry and market-related data and all information relating to the LC Bank included in this Offering Circular are derived from sources which are accurate and reliable; (v) the statements of intention, opinion, belief or expectation contained in, or incorporated by reference into, this Offering Circular are honestly and reasonably made or held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; and (vi) all reasonable enquiries have been made by the Issuer and the Bank to ascertain such facts in this Offering Circular and to verify the accuracy of all such information and statements in this Offering Circular.

Each of the Issuer and the Bank accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

This Offering Circular has been prepared by the Issuer and the Bank solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Joint Lead Managers or the Issuer or the Bank to subscribe for or purchase any of the Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Bank, BOSC International Company Limited, China Construction Bank (Asia) Corporation Limited, Merrill Lynch (Asia Pacific) Limited, Crédit Agricole Corporate and Investment Bank, ABCI Capital Limited, Agricultural Bank of China Limited Hong Kong Branch, Bank of China Limited, China Everbright Securities (HK) Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, Dongxing Securities (Hong Kong) Company Limited, Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited, Industrial and Commercial Bank of China (Asia) Limited, Nanyang Commercial Bank, Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, Standard Chartered Bank and Zhongtai International Securities Limited (the "**Joint Lead Managers**") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto, in certain jurisdictions including the United States, the European Economic Area, the United Kingdom, Hong Kong, the People's Republic of China, Singapore, Japan and the British Virgin Islands, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "*Subscription and Sale*".

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Bank, the Group, the LC Bank, the Bonds, the Standby Letter of Credit or the Keepwell Deed other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Bank, the Joint Lead Managers, the Trustee or the Agents (in each case as defined herein) or their respective affiliates, officers, employees, directors, agents or advisors. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Bank, the Group or any of them or the LC Bank since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Bank, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, officers, employees, directors, agents or advisors to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular is being furnished by the Issuer and the Bank in connection with the offering of the Bonds exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Bonds. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Issuer, the Bank and other sources identified in this Offering Circular. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Bonds offered by this Offering Circular is prohibited. Each offeree of the Bonds, by accepting delivery of this Offering Circular, agrees to the foregoing.

This Offering Circular is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Bonds. Distribution of this Offering Circular to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing and agrees not to make photocopies of this Offering Circular or any documents referred to in this Offering Circular.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, officers, employees, directors, agents or advisors, as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, officers, employees, directors, agents or advisors.

To the fullest extent permitted by law, the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, officers, employees, directors, agents and advisors do not accept any responsibility for the contents of this Offering Circular and assume no responsibility for the contents, accuracy, completeness or sufficiency of any such information or for any other statement, made or purported to be made by the Joint Lead Managers or on their behalf in connection with the Bank, the Issuer, the Group, the Standby Letter of Credit, the LC Bank or the issue and offering of the Bonds. Each of the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, officers, employees, directors, agents or advisors accordingly disclaim all and any liability whether arising in tort or contract or otherwise which they might otherwise have in respect of this Offering Circular or any statement herein. None of the Joint Lead Managers, the Trustee or any Agent or any of their respective affiliates, officers, employees, directors, agents or advisors undertakes to review the financial condition or affairs of the Issuer, the Bank, the Group or the LC Bank after the date of this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of the Joint Lead

Managers, the Trustee or any Agent. None of the Joint Lead Managers, the Trustee, the Agents and their respective affiliates, officers, employees, directors, agents or advisors have independently verified any of the information contained in this Offering Circular and can give no assurance that any of such information is accurate, truthful or complete.

This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Bank, the Group, the LC Bank, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, officers, employees, directors, agents or advisors that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisors as it deems necessary.

Any of the Joint Lead Managers and their respective affiliates may purchase the Bonds for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities of the Issuer or the Bank or their respective subsidiaries or associates at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). Furthermore, investors in the Bonds may include entities affiliated with the Group.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in 309A of the SFA) that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

IN CONNECTION WITH THE ISSUE OF THE BONDS, ANY OF THE JOINT LEAD MANAGERS ACTING IN ITS CAPACITY AS THE STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF SUCH JOINT LEAD MANAGERS) (THE "STABILISATION MANAGERS") MAY OVER-ALLOT THE BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION ON SUCH STABILISATION MANAGERS TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

Listing of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Bank, the Group or the Bonds. In making an investment decision, investors must rely on their own examination of the Issuer, the Bank and the Group and the terms of the offering of the Bonds, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds. The Issuer, the Bank, the Group, the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, officers, employees, directors, agents and advisors are not making any representation to any purchaser of the Bonds regarding the legality of any investment in the Bonds by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice.

In making an investment decision, investors must rely on their own examination of the Issuer, the Bank, the Group, the LC Bank, the Standby Letter of Credit, the Keepwell Deed and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers or any person affiliated with the Joint Lead Managers in connection with its investigation of the accuracy of such information or its investment decision.

The information included in this Offering Circular regarding China Construction Bank Corporation ("**CCB**") or its Hong Kong Branch is for information purposes only and is based on, or derived or extracted from, among other sources, publicly available information. Any information available from public sources that is referenced in this Offering Circular but which is not separately included in this Offering Circular shall not deemed to be incorporated by reference to this Offering Circular. In particular, the audited consolidated financial statements and the unaudited but reviewed interim consolidated financial statements of CCB are not included in or incorporated by reference in and do not form part of this Offering Circular. The Issuer and the Bank have taken reasonable care in the compilation and reproduction of the information. However, none of the Issuer, the Bank, the Group, the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, officers, employees, directors, advisors and agents has independently verified such information. No representation or warranty, express or implied, is made or given by the Issuer, the Bank, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, officers, employees, directors, advisors and agents as to the accuracy, completeness or sufficiency of such information. Accordingly, such information should not be unduly relied upon.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

Unless otherwise specified or the context otherwise requires, all references in this Offering Circular to "**Bank**" or "**Group**" are to Bank of Shanghai Co., Ltd. (上海銀行股份有限公司) and, in the case of "**the Bank**" except as context otherwise requires, the subsidiaries of Bank of Shanghai Co., Ltd.; and references to "**Issuer**" are to BOSCI (BVI) Limited, an indirect wholly-owned subsidiary of the Bank, itself.

Unless otherwise specified or the context otherwise requires, all references in this Offering Circular to "**China**" or the "**PRC**" are to the People's Republic of China and, for the purpose of this Offering Circular only, exclude, Hong Kong SAR, Macau SAR of the PRC and Taiwan, and all references to "**Hong Kong**" are to the Hong Kong SAR of China. Unless otherwise specified or the context otherwise requires, references herein to "**Renminbi**", "**RMB**" or "**CNY**" are to the lawful currency of the PRC, references herein to "**Hong Kong dollars**", "**HK dollars**" or "**HK$**" are to the lawful currency of Hong Kong and references herein to "**U.S. dollars**", "**U.S.$**" or "**USD**" are to the lawful currency of the United States of America. In addition, references herein to the financial ratios of the Bank and defined terms used in the calculation of such ratios may differ from those in the "*Terms and Conditions of the Bonds*".

For ease of reference, in this Offering Circular, unless otherwise indicated, the terms "**total loans and advances to customers**", "**loans**" and "**loans to customers**" are used synonymously. In this Offering Circular, unless otherwise indicated, the discussions on loans are based on the Bank's total loans and advances to customers, before taking into account the related allowance for impairment losses, rather than its net loans to customers.

All non-company specific statistics and data relating to the Bank's industry or the economies of pertinent jurisdictions, such as the PRC, have been extracted or derived from publicly available information and various government sources. The Issuer and the Bank believe that the sources of this information are appropriate for such information and the Issuer has taken reasonable care in extracting and reproducing such information. Each of the Issuer and the Bank has 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. However, this information has not been independently verified by the Issuer, the Bank, the LC Bank, the Joint Lead Managers, the Trustee or the Agents or by their respective affiliates, officers, employees, directors, advisors and agents and none of the Issuer, the Bank, the LC Bank, the Joint Lead Managers, the Trustee or the Agents or their respective affiliates, officers, employees, directors, advisors and agents makes any representation as to the correctness, accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon. Any information available from public sources that is referenced in this Offering Circular but is not separately included in this Offering Circular shall not be deemed to be incorporated by reference in this Offering Circular.

Solely for the sake of convenience, this Offering Circular contains translations of certain Renminbi amounts into US dollar amounts. Unless indicated otherwise, the translation of Renminbi amounts into US dollar amounts has been made at the rate of RMB7.0651 to U.S.$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on 30 June 2020 as set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that any amounts in RMB, U.S.$ or HK$ can be or could have been converted on the relevant dates at the above rates or at any other rate or at all.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this Offering Circular in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

PRESENTATION OF FINANCIAL INFORMATION

This Offering Circular contains the Bank's consolidated financial information as of and for the years ended 31 December 2017, 2018 and 2019 which is derived from the Bank's audited consolidated financial statements for the years ended 31 December 2018 and 2019 (the "**Audited Financial Statements**"). The Audited Financial Statements have been audited by KPMG Huazhen LLP, Certified Public Accountants registered in the PRC, the auditor of the Bank ("**KPMG Huazhen**"). The Audited Financial Statements were prepared in accordance with the Accounting Standards for Business Enterprises and other specific standards issued by the Ministry of Finance of the PRC (the "**PRC GAAP**").

The Bank's interim consolidated financial information as of and for the six months ended 30 June 2019 and 2020 contained in this Offering Circular are derived from the Bank's interim consolidated financial statement for the six months ended 30 June 2020 (which includes the comparative financial information as at and for the six months ended 30 June 2019, the "**Interim Financial Statement**"). The Interim Financial Statement was prepared in conformity with PRC GAAP and reviewed by PricewaterhouseCoopers Zhong Tian LLP. The Interim Financial Statement has not been subject to an audit and consequently, should not be relied upon by investors to give the same quality of information associated with information that has been subject to an audit. In addition, the Interim Financial Statement should not be taken as an indication for the expected financial condition, results of operations and cash flows for the full financial year ending 31 December 2020.

The Interim Financial Statement published in Chinese on the Bank's website at http://www.bosc.cn/jfimg/colimg/shyh/zh/tzzgx/tzzgx_dqbg/2020-35/136450.pdf from page 89 to page 233, are incorporated by reference in this Offering Circular, and is considered to be a part of this Offering Circular. The Interim Financial Statement incorporated by reference is current only as of the date of such document, and the incorporation by reference of such document shall not create any implication that there has been no change in the Bank's affairs since the date thereof or that the information contained therein is current as of any time subsequent to its date.

The Bank's Audited Financial Statements and Interim Financial Statement have been prepared in Chinese. English translations of the Audited Financial Statements (the "**Financial Statements Translation**") are included elsewhere in this Offering Circular for reference only. Should there be any inconsistency between the Audited Financial Statements and the Financial Statements Translation, the Audited Financial Statements shall prevail. These Financial Statements Translation do not themselves constitute audited or reviewed financial statements and are qualified in their entirety by, and are subject to the more detailed information and the financial information set out or referred to in, the Audited Financial Statements. None of the Joint Lead Managers, the Trustee, the Agents or their respective affiliates, officers, employees, directors, agents or advisers has independently verified or checked the accuracy of the Financial Statements Translation and can give no assurance that the information contained in the Financial Statements Translation is accurate, truthful or complete.

Investors should note that the Interim Financial Statement is only available in Chinese and has not been translated into English. Investors should endeavour to take the necessary steps to review (including to engage professional advisers to assist with reviewing) the Interim Financial Statement in making their investment decision in the Bonds.

The Bank publishes its interim financial information from time to time. Such financial information published by the Bank in the PRC is normally derived from its management accounts and is not audited or reviewed by independent auditors. As such, financial information published in the PRC by the Bank may not provide potential purchasers with the same quality of information associated with any audited information. Such financial information is not included in this Offering Circular and should not be relied upon by any investors in making their investment decisions in the Bonds.

The Bank has not prepared its consolidated financial statements as of and for the years ended 31 December 2018 and 2019 in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**"). PRC GAAP differs in certain material respects from IFRS. For a discussion of certain differences between PRC GAAP and IFRS, see "*Summary of Significant Differences between PRC GAAP and IFRS*".

Any financial information of CCB contained in this Offering Circular has been extracted from publicly available information. Copies of the CCB's published audited consolidated financial statements and unaudited but reviewed interim consolidated financial statements, as well as its public filings, can be downloaded free of charge from the websites of the Hong Kong Stock Exchange at www.hkexnews.hk. The audited consolidated financial statements of CCB were prepared in accordance with IFRS. The Issuer and the Bank have taken reasonable care in the compilation and reproduction of the financial information of CCB contained in this Offering Circular. However, none of the Issuer, the Bank, the Joint Lead Managers, the Trustee and the Agents or any of their respective affiliates, directors, officers, employees or advisers has independently verified such information. Accordingly, such information should not be unduly relied upon. The audited consolidated financial statements and the unaudited but reviewed interim consolidated financial statements of CCB are not included in nor incorporated by reference in this Offering Circular and do not form part of this Offering Circular. The information contained on the websites of the Hong Kong Stock Exchange is subject to change from time to time. No representation is made by the Issuer, the Bank, the Joint Lead Managers, the Trustee, the Agents, or any of their affiliates, employees or professional advisers, and none of the Issuer, the Bank, the Joint Lead Managers, the Trustee, the Agents, or any of their affiliates, employees or professional advisers, take any responsibility, for any information contained on websites of the Hong Kong Stock Exchange.

In this Offering Circular, where information has been presented in thousands or millions or billions or trillions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units. References to information in trillions of units are to the equivalent of a thousand billion units.

DEFINITIONS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below:

"ATM"	automatic teller machine
"AUM"	assets under management
"Audit Committee"	the audit committee of the Board
"Basel III"	the newest Basel Capital Accord promulgated in December 2010 by the Basel Committee on Bank Supervision
"BOSC Asset Management"	BOSC Asset Management Limited (上銀基金管理有限公司), a 90 per cent. held subsidiary of the Bank which was incorporated in the PRC on 30 August 2013
"Board of Directors" or "Board"	the board of Directors of the Bank
"Board of Supervisors"	the board of Supervisors of the Bank
"Bohai Rim"	for purposes of this Offering Circular, Beijing Municipality, Tianjin Municipality, Hebei Province and Shandong Province
"BOS Hong Kong"	Bank of Shanghai (Hong Kong) Limited (上海銀行(香港)有限公司), formerly named China Construction Bank (Asia) Finance Limited, a subsidiary of the Bank, which is wholly owned by the Bank and commenced its business in June 2013 in Hong Kong
"BOSC International"	BOSC International Company Limited (上銀國際有限公司), a direct wholly owned subsidiary of BOS Hong Kong and an indirect wholly-owned subsidiary of the Bank, which was incorporated in Hong Kong on 5 March 2014
"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 24 March 2018, and, if the context requires, includes its predecessors, namely the CBRC and CIRC
"CBRC"	China Banking Regulatory Commission (中國銀行業監督管理委員會), which was merged with the CIRC to form 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 24 March 2018
"CCB"	China Construction Bank Corporation

"Central and Western China"	for purposes of this Offering Circular, Shanxi Province, Henan Province, Anhui Province, Hubei Province, Hunan Province, Jiangxi Province, Sichuan Province, Chongqing Municipality, Shaanxi Province, Yunnan Province, Gansu Province, Ningxia Hui Autonomous Region, Qinghai Province, Xinjiang Uyghur Autonomous Region, Guizhou Province, Tibet Autonomous Region, Guangxi Zhuang Autonomous Region and Inner Mongolia Autonomous Region
"China Jianyin Investment"	China Jianyin Investment Co., Ltd., a shareholder of the Bank, which was incorporated in the PRC in September 2004
"Chongzhou BoS Rural Bank"	Chongzhou BoS Rural Bank Co. Ltd., a subsidiary of the Bank, which has 51 per cent. of its equity interests held by the Bank and was incorporated in the PRC on 21 June 2012
"CIRC"	China Insurance Regulatory Commission (中國保險業監督管理委員會), which was merged with the CIRC to form 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 24 March 2018
"City Commercial Bank(s)"	banks which are approved by CBIRC (中國銀行保險監督管理委員會) to be incorporated under PRC Company Law (中華人民共和國公司法) and PRC Commercial Banking Law (中華人民共和國商業銀行法) with branches set up at municipal level and above in the PRC
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"CRMS"	Corporate Risk Management System
"Director(s)"	the director(s) of the Bank
"EIT"	Enterprise Income Tax
"EIT Law"	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), which came into effect on 1 January 2008 and was amended on 29 December 2018
"GDP"	gross domestic product
"IASB"	International Accounting Standards Board
"IFRS"	International Financial Reporting Standards promulgated by the IASB, which includes International Accounting Standards and their interpretations
"IIT"	Individual Income Tax
"IIT Law"	Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法), which came into effect on 10 September 1980 and was amended on 31 August 2018
"Jiangning BoS Rural Bank"	Jiangsu Jiangning BoS Rural Bank Co. Ltd., a subsidiary of the Bank, which has 51 per cent. of its equity interests held by the Bank and was incorporated in the PRC on 24 May 2011

"Joint Bookrunners"	BOSC International Company Limited, China Construction Bank (Asia) Corporation Limited, Merrill Lynch (Asia Pacific) Limited, Crédit Agricole Corporate and Investment Bank, ABCI Capital Limited, Agricultural Bank of China Limited Hong Kong Branch, Bank of China Limited, China Everbright Securities (HK) Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, Dongxing Securities (Hong Kong) Company Limited, Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited, Industrial and Commercial Bank of China (Asia) Limited, Nanyang Commercial Bank, Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, Standard Chartered Bank and Zhongtai International Securities Limited
"Joint Global Coordinators"	BOSC International Company Limited, China Construction Bank (Asia) Corporation Limited, Merrill Lynch (Asia Pacific) Limited and Crédit Agricole Corporate and Investment Bank
"Joint Lead Managers"	BOSC International Company Limited, China Construction Bank (Asia) Corporation Limited, Merrill Lynch (Asia Pacific) Limited, Crédit Agricole Corporate and Investment Bank, ABCI Capital Limited, Agricultural Bank of China Limited Hong Kong Branch, Bank of China Limited, China Everbright Securities (HK) Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, Dongxing Securities (Hong Kong) Company Limited, Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited, Industrial and Commercial Bank of China (Asia) Limited, Nanyang Commercial Bank, Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, Standard Chartered Bank and Zhongtai International Securities Limited
"Joint-stock Commercial Banks"	China Merchants Bank, China CITIC Bank, Huaxia Bank, China Guangfa Bank, Ping An Bank, Shanghai Pudong Development Bank, Industrial Bank, China Minsheng Bank, Evergrowing Bank, China Zheshang Bank, China Bohai Bank and China Everbright Bank
"KPMG Huazhen"	KPMG Huazhen LLP, Certified Public Accountants registered in the PRC, the auditor of the Bank for the years ended 31 December 2017, 2018 and 2019.
"Large Commercial Banks"	Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications
"LC Bank"	China Construction Bank Corporation, Hong Kong Branch
"MIIT"	Ministry of Industry and Information Technology of the PRC（中華人民共和國工業和信息化部）
"Minhang BoS Rural Bank"	Shanghai Minhang BoS Rural Bank Co., Ltd., a subsidiary of the Bank, which is held as 46.41 per cent. of its equity interests by the Bank and was incorporated in the PRC on 16 February 2011
"Ministry of Finance" or "MOF"	Ministry of Finance of the PRC（中華人民共和國財政部）

"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"NAO"	National Audit Office of the PRC (中華人民共和國國家審計署)
"NBSC"	National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展改革委員會)
"New Capital Rules"	Administrative Measures on the Capital of Commercial Banks (Provisional)(商業銀行資本管理辦法(試行)), as promulgated by the CBRC on 7 June 2012, effective as of 1 January 2013
"New Institutions"	for purposes of this Offering Circular, certain types of institutions which have emerged in China in recent years such as private equity funds, venture capital funds, third-party payment service providers and small loan companies
"Nomination and Remuneration Committee"	nomination and remuneration committee of the Board
"NPC"	National People's Congress of the PRC (中華人民共和國全國人民代表大會)
"NPCSC"	Standing Committee of the NPC of the PRC (中華人民共和國全國人民代表大會常務委員會)
"NPL"	non-performing loan
"PBOC"	People's Bank of China (中國人民銀行), the central bank of the PRC
"Pearl River Delta"	for the purposes of this Offering Circular, Guangdong Province and Fujian Province
"PRC Commercial Banking Law"	Commercial Banking Law of the PRC (中華人民共和國商業銀行法), as enacted by the Standing Committee of the Eighth National People's Congress on 10 May 1995 and became effective on 1 July 1995, which was revised on 27 December 2003 and may be amended, supplemented or otherwise modified from time to time
"PRC Company Law"	Company Law of the PRC (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People's Congress on 27 October 2005 and became effective on 1 January 2006, which may be amended, supplemented or otherwise modified from time to time
"PRC Securities Law"	Securities Law of the PRC (中華人民共和國證券法), as amended and adopted by the Standing Committee of the Tenth National People's Congress on 27 October 2005 and became effective on 1 January 2006, which may be amended, supplemented or otherwise modified from time to time

"PRC GAAP"	PRC Accounting Standards and Accounting Regulations for Business Enterprises promulgated by the MOF on 15 February 2006 and its supplementary regulations
"PRC Supreme Court"	Supreme People's Court of the PRC
"PricewaterhouseCoopers Zhong Tian LLP"	PricewaterhouseCoopers Zhong Tian LLP, Certified Public Accountants registered in the PRC, the current auditor of the Bank and for the six months ended 30 June 2020.
"Qujiang BoS Rural Bank"	Zhejiang Quzhou Qujiang BoS Rural Bank Co., Ltd., a subsidiary of the Bank, which is held as 51 per cent. of its equity interests by the Bank and was incorporated in the PRC on 20 June 2011.
"Regulation S"	Regulation S under the Securities Act
"Related Party Transaction Control Committee"	related party transaction control committee of the Board
"Risk Management Committee"	risk management committee of the Board
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
"SAMR"	State Administration for Market Regulation (中華人民共和國國家市場監督管理總局), a regulatory authority formed via the merger of State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局) and other bureaus 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 24 March 24 2018, and, if the context requires, includes its predecessor, namely State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"Santander"	Banco Santander S.A., a shareholder of the Bank, which was incorporated in 1957 in Spain
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"SAT"	State Administration of Taxation of the PRC (中華人民共和國稅務總局)
"SCB"	Shanghai Commercial Bank, Ltd., a shareholder of the Bank, which is an indirect non-wholly owned subsidiary of SCSB and was established in Hong Kong in November 1950.
"SCSB"	The Shanghai Commercial & Savings Bank, Ltd., a company which was established in Shanghai in 1915
"Securities Act"	US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"SGX-ST"	The Singapore Exchange Securities Trading Limited

"SIPG"	Shanghai International Port (Group) Co., Ltd., a shareholder of the Bank, which was incorporated in 2003 in the PRC and listed on the Shanghai Stock Exchange (600018.SSE)
"Shanghai Alliance"	Shanghai Alliance Investment Ltd., the largest shareholder of the Bank, which is a limited liability company wholly-owned by the Shanghai Municipal Government of the PRC and was incorporated in the PRC in September 1994
"SHIBOR"	Shanghai Inter-bank Offered Rate, a daily reference rate published by the National Inter-bank Funding Centre
"Small Enterprise(s)"	enterprise(s) (i) with annual revenue of no more than RMB300 million or net assets of no more than RMB30 million based on its financial statements of the latest financial year and (ii) to which the Bank's credit exposure is no more than RMB30 million for a single borrower or RMB45 million for a group borrower, except for the following enterprises: (1) government financing vehicles, (2) real estate companies, (3) non-bank financial institutions, (4) investment companies and (5) any other enterprises as determined by the Bank's headquarters from time to time
"Small and Micro Enterprise(s)" or "SME(s)"	small and micro-sized enterprise(s) as defined in the Classification Standards for Small and Medium-sized Enterprises (中小企業劃型標準規定), promulgated by the MIIT, the NBSC, the NDRC and the MOF on 18 June 2011
"Stabilisation Manager"	any of the Joint Lead Managers acting in its capacity as the stabilisation manager
"State Council"	State Council of the PRC (中華人民共和國國務院)
"Strategy Committee"	strategy committee of the Board
"Supervisor(s)"	one (or all) of the Bank's supervisor(s)
"United States" or "US"	United States of America, its territories, its possessions and all areas subject to its jurisdiction
"WTO"	World Trade Organisation
"Yangtze River Delta"	for purposes of this Offering Circular, Shanghai Municipality, Jiangsu Province and Zhejiang Province

FORWARD-LOOKING STATEMENTS

The Issuer and the Bank have made forward-looking statements in this Offering Circular regarding, among other things, the Bank's financial conditions, future expansion plans and business strategies. These forward-looking statements are based on the Bank's current expectations about future events. Although the Issuer and the Bank believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things:

- the ability of the Bank to successfully implement its business plans and strategies;
- future developments, trends and conditions in the industry and markets in which the Bank operates;
- the Bank's business prospects and capital expenditure plans;
- the actions and developments of the Bank's competitors;
- the Bank's financial conditions and performance;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of the Bank's business;
- general political and economic conditions, including those related to the PRC;
- 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 the Group operates;
- various business opportunities that the Bank may pursue;
- macroeconomic measures taken by the PRC government to manage economic growth; and
- those other risks identified in the "Risk Factors" section of this Offering Circular.

The words "anticipate", "believe", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify a number of these forward-looking statements. The Issuer and the Bank undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur and the Issuer's and the Bank's actual results could differ materially from those anticipated in these forward-looking statements. Accordingly, investors are cautioned not to place undue reliance on these forward-looking statements.

These forward-looking statements speak only as of the date of this Offering Circular. The Issuer and the Bank expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

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SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to prospective investors in deciding whether to invest in the Bonds. Terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should read this Offering Circular in its entirety, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making an investment decision.

OVERVIEW

The Bank is a leading City Commercial Bank in China with the majority of its operations concentrated in Shanghai. The Bank is well positioned to benefit from the developed economic environment of Shanghai and the advantages derived from Shanghai's development into an international financial centre. As one of the first batch of City Commercial Banks established in China, the Bank has built a solid business foundation and customer base over its approximately 25 years of development. As of 30 June 2020, the Bank's total assets, total loans and total deposits were RMB2,388.2 billion, RMB1,028.9 billion and RMB1,284.1 billion, respectively. The Bank was listed on the Shanghai Stock Exchange (stock code: 601229.SH) in November 2016.

The Bank has a broad customer base and excellent brand image. As of 30 June 2020, the Bank had approximately 17.05 million personal customers and approximately 230,100 corporate customers. The Bank was ranked the 73rd and 84th in terms of tier-one capital and total assets, respectively, on the list of Top 1000 World Banks (全球銀行1000強) published in 2020 by *The Banker*. The Bank was ranked the 83rd on the list of Top 500 Most Valuable Banking Brands (全球銀行品牌價值500強) in 2020 by *Brand Finance*.

The Bank has established a comprehensive network of distribution channels. As of 30 June 2020, the Bank had a total of 318 branches and outlets nationwide (including its head office, its credit card centre and small business financial services centre), 228 of which were located in Shanghai. The Bank has also established a number of branches and sub-branches in other cities including Beijing, Shenzhen, Hangzhou, Nanjing, Tianjin, Chengdu, Ningbo and Suzhou. In addition, as of 30 June 2020, the Bank had 415 self-service banking stations as well as a variety of electronic banking channels, including internet banking, mobile banking, WeChat banking and phone banking. BOS Hong Kong, the wholly-owned subsidiary of the Bank, commenced its business in June 2013, which has further developed its cross-border corporate banking business including loans, syndicate loans, trade finance, cash management and treasury business. BOSC International, the wholly-owned subsidiary of BOS Hong Kong, commenced its business operations in January 2015, engaging in a full scale of investment banking businesses including fixed income, asset management, securities brokerage, direct investment, and financial and investment advisory.

Leveraging its customer base, brand recognition and distribution channels, the Bank has developed its special advantages in a number of business areas over the past years. The Bank is one of the first commercial banks in China positioned to provide banking services to SMEs. The Bank also provides a broad range of financial products and services to government agencies and, in particular, the Bank has close relationships with many financial bureaus in Shanghai and is one of Shanghai's leading banks in serving social security funds and medical insurance funds. Moreover, the Bank has obtained a wide array of qualifications and has an extensive presence in various areas of treasury business.

The Bank's financial performance and strengths have steadily developed over the past years. As of 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's total assets amounted to RMB1,807.8 billion, RMB2,027.8 billion, RMB2,237.1 billion and RMB2,388.2 billion, respectively, and its total loans and advances to customers amounted to RMB664.0 billion, RMB850.7 billion, RMB972.5 billion and RMB1,028.9 billion, respectively. For the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, the Bank's net profit for the period amounted to RMB15.3 billion, RMB18.1 billion, RMB20.3 billion, RMB10.7 billion and RMB11.1 billion, respectively.

COMPETITIVE STRENGTHS

The Bank believes that its competitive strengths outlined below are important to its success and future development:

- Uniquely positioned to benefit from the regional advantages of Shanghai;
- Prudent quantitative risk management and sound asset quality;
- Outstanding strategic management system and strong profitability;
- Extensive high quality customer base and comprehensive multi-channel distribution network providing significant growth potential;
- An integrated banking platform providing comprehensive financial services and synergy to grow business;
- Seasoned senior management with strong execution capabilities; and
- Diversified shareholding structure and strong support from substantial shareholders.

BUSINESS STRATEGIES

The Bank's strategic goal is to become a boutique bank which offers professional services in excellent quality. Specifically, the boutique bank shall include below elements:

- *Service*: to achieve product sophistication and professional services;
- *Management*: to achieve sophisticated management and efficient operation;
- *Financial*: to achieve steady growth in business and outstanding profits; and
- *Brand*: to achieve a reputable brand with integrity and excellence.

To achieve this goal, the Bank focuses on the development of the following areas:

- To advance and accelerate strategic transformation and enhance business sustainability;
- To develop and foster featured businesses in order to increase market competitiveness;
- To advance transformation of the distribution channel base to create synergy;
- To promote its overall capabilities of risk management and internal control;
- To upgrade its capital and financial management capabilities;
- To strengthen core competitiveness in information technology; and
- To optimise management system and improve human resources capabilities.

RECENT DEVELOPMENTS

Resignation of the Bank's President

Mr. Hu Youlian resigned from the Bank's vice board chairman, executive director, president and all other duties in the Bank. The resignation is effective from 31 August 2020. Mr. Zhu Jian, the vice secretary of the Bank's party committee, is proposed to be nominated as the Bank's president. The engagement is subject to the approval of the Board of Directors of the Bank. Mr. Zhu's qualification serving as the Bank's president is subject to the approval of the CBIRC or its local bureau.

The Bank's Unaudited Interim Financial Statement

As a company listed on the Shanghai Stock Exchange in accordance with the listing requirements, the Bank published its Interim Financial Statement on 21 August 2020. The Bank's interim consolidated financial information as of and for the six months ended 30 June 2019 and 2020 contained in this Offering Circular are derived from the Bank's interim consolidated financial statement for the six months ended 30 June 2020 (which includes the comparative financial information as at and for the six months ended 30 June 2019, the "**Interim Financial Statement**"). The Interim Financial Statement was prepared in conformity with PRC GAAP and reviewed by PricewaterhouseCoopers Zhong Tian LLP. The Interim Financial Statement has not been subject to an audit and consequently, should not be relied upon by investors to give the same quality of information associated with information that has been subject to an audit. In addition, the Interim Financial Statement should not be taken as an indication for the expected financial condition, results of operations and cash flows for the full financial year ending 31 December 2020.

The Interim Financial Statement, published in Chinese on the Bank's website at http://www.bosc.cn/jfimg/colimg/shyh/zh/tzzgx/tzzgx_dqbg/2020-35/136450.pdf from page 89 to page 233, are incorporated by reference in this Offering Circular, and is considered to be a part of this Offering Circular. The Interim Financial Statement incorporated by reference is current only as of the date of such document, and the incorporation by reference of such document shall not create any implication that there has been no change in the Bank's affairs since the date thereof or that the information contained therein is current as of any time subsequent to its date.

Investors should note that the Interim Financial Statement is only available in Chinese and has not been translated into English. Investors should endeavour to take the necessary steps to review (including to engage professional advisers to assist with reviewing) the Interim Financial Statement in making their investment decision in the Bonds. See "*Summary Historical Financial Information*" and "*Description of the Bank – Recent Developments*" for more information.

The Recent Novel Coronavirus Outbreak

In December 2019, an outbreak of coronavirus disease 2019 ("**COVID-19**"), a viral respiratory illness, was first reported in Wuhan, Hubei province, the PRC and has since been reported in numerous other countries globally. Travel restrictions were imposed in relation to several cities in the PRC as well as in other countries in an effort to curb the spread of COVID-19. The outbreak of COVID-19 outbreak poses potential risks to the Bank's business, results of operations, financial condition. See "*Risks Relating to the Bank's Business – Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in China, including the recent COVID-19 pandemic, may have a material adverse effect on the Bank's business operations, financial conditions and results of operations" for more information*. In the first quarter of 2020, the domestic interest rate and exchange rates was volatile, which may impose uncertainties to the Bank's business operation.

Since the outbreak of COVID-19, the Bank has been actively taken comprehensive mitigating measures to provide various financial services and credit support for enterprises and individual customers. The Bank facilitates the pandemic prevention and control by increasing its credit support in key industries. As of 30 June 2020, the Bank's total assets were RMB2,388.2 billion, an increase of 6.76 per cent.

compared to RMB2,237.1 billion as of 31 December 2019. As of 30 June 2020, the total loans and advances to customers reached RMB1,028.9 billion, an increase of 5.80 per cent. compared to RMB972.5 billion as of 31 December 2019.

The Bank also strengthens its in-depth integration of product innovation, customer marketing and distribution channel management to broaden its source of deposits. As of 30 June 2020, the Bank's total deposits from customers were RMB1,284.1 billion, an increase of 8.27 per cent. compared to RMB1,186.1 billion as of 31 December 2019. Due to the proactive measures taken, the Bank believes that there is no material adverse impact to its business, results of operations, financial condition and prospects in 2020.

Approval for the Issue of RMB20 billion Convertible Bonds in the PRC

On 25 October 2019, the Board of Directors of the Bank passed the resolution for its proposed issue of convertible bonds with a total amount up to RMB20 billion. On 12 December 2019, the shareholders of the Bank approved the relevant proposed issuance. Further, the Bank received the approval from CBIRC Shanghai Bureau for the proposed offering on 16 May 2020. The proposed convertible bonds has a term of six years and is convertible into A shares of the Bank. The price and terms will be determined by the Board of Directors by the time of issuance. As at the date of this Offering Circular, the Bank has not issued any convertible bonds or entered into any transaction documents in connection with the issuance of convertible bonds.

Investment in Green Development Fund

On 17 July 2020, the Bank entered into a shareholders' agreement with National Green Development Fund Co. Ltd.(國家綠色發展基金股份有限公司)(the "**Shareholders' Agreement**"), pursuant to which the Bank agreed to subscribe for approximately 2.26 per cent. of the equity interests in the green development fund corporation to be established, for consideration of RMB2 billion. According to the Shareholders' Agreement, the subscription amount will be paid in instalments within five years after establishment. This investment is key to the Bank's strategic development in green finance industry.

THE ISSUE

The following contains summary information about the Bonds and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Bonds" and "Summary of provisions relating to the Bonds in Global Form" shall have the same meanings in this summary. For a more complete description of the terms of the Bonds, see "Terms and Conditions of the Bonds".

Issuer	BOSCI (BVI) Limited
Issuer's Legal Entity Identifier (LEI).	254900UUACQCYKVME239
Bank	Bank of Shanghai Co., Ltd.（上海銀行股份有限公司）
Bonds	U.S.$300,000,000 aggregate principal amount of 1.250 per cent. credit enhanced bonds due 2023.
Issue Price.	99.988 per cent. of the principal amount.
Form and Denomination.	The Bonds will be issued in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Interest	The Bonds will bear interest at a rate of 1.250 per cent. per annum.
Interest Payment Dates. .	The Bonds bear interest from 10 September 2020, payable semi-annually in arrear on the Interest Payment Dates falling on 10 March and 10 September in each year, commencing on 10 March 2021.
Issue Date	10 September 2020.
Maturity Date	10 September 2023.
Standby Letter of Credit	The Bonds will have the benefit of the Standby Letter of Credit issued by the LC Bank in favour of the Trustee, on behalf of the holders of the Bonds. The Standby Letter of Credit shall be drawable by the Trustee as beneficiary under the Standby Letter of Credit on behalf of the holders of the Bonds upon the presentation of a demand by authenticated SWIFT sent for and on behalf of the Trustee to the LC Bank in accordance with the terms of the Standby Letter of Credit (the "**Demand**") stating that (i) the Issuer has failed to comply with Condition 1(d) (*Pre-funding*) in relation to pre-funding an amount that is required to be pre-funded under the Terms and Conditions of the Bonds and/or has failed to provide the Required Confirmations (as defined below) in accordance with Condition 1(d) (*Pre-funding*) or (ii) an Event of Default has occurred and the Trustee has given notice to the Issuer in accordance with Condition 8 (*Events of Default*) that the Bonds are immediately due and payable in accordance with Condition 8 (*Events of Default*).

Only one drawing is permitted under the Standby Letter of Credit. Such drawing on the Standby Letter of Credit will be payable in U.S. dollars to or to the order of the Trustee at the time and to the account specified in the Demand presented to the LC Bank. All amounts received by the Trustee in respect of the Demand will be deposited into the LC Proceeds Account.

Every payment made under the Standby Letter of Credit in respect of any amount payable under the Terms and Conditions of the Bonds or in connection with the Bonds or the Trust Deed shall satisfy the obligations of the Issuer in respect of such amount payable under the Terms and Conditions of the Bonds or in connection with the Bonds or the Trust Deed.

The LC Bank's liability under the Standby Letter of Credit shall be expressed and payable in U.S. dollars and shall not in any circumstances exceed U.S.$306,000,000, an amount representing the amount of the aggregate principal amount of U.S.$300,000,000 of the Bonds plus interest payable for one interest period in accordance with Condition 4 (*Interest*) plus any fees, expenses and all other amounts payable by the Issuer in connection with the Bonds, the Trust Deed and the Agency Agreement. The Standby Letter of Credit expires at 5:00 p.m. (Hong Kong time) on 10 October 2023.

See "*Terms and Conditions of the Bonds – Form, Denomination, Status, Standby Letter of Credit and Pre-funding – Standby Letter of Credit*" *and* "*Appendix – Form of Standby Letter of Credit*".

Pre-funding . . . . In order to provide for the payment of any amount in respect of the Bonds (other than the Mandatory Redemption Amount payable under Condition 5(d) (*Mandatory redemption upon Pre-funding Failure*) or any amount payable under Condition 5(e) (*Mandatory redemption upon Standby Letter of Credit ceasing to be enforceable*)) (the "**Relevant Amount**") as the same shall become due, the Issuer shall, in accordance with the Agency Agreement, by no later than the Business Day falling ten Business Days (the "**Pre-funding Date**") prior to the due date for such payment under the Terms and Conditions of the Bonds:

(i) unconditionally pay or procure to be paid the Relevant Amount into the Pre-funding Account; and

(ii) deliver to the Trustee and the Principal Paying Agent by facsimile (x) a Payment and Solvency Certificate signed by one Authorised Signatory (as defined in the Trust Deed) of the Issuer, and (y) a copy of the irrevocable payment instruction from the Issuer to the Pre-funding Account Bank requesting the Pre- funding Account Bank to pay the Relevant Amount paid into the Pre-funding Account on the Pre-funding Date in full to the Principal Paying Agent no later than 11:00 a.m. (Hong Kong time) on the Business Day immediately preceding the due date for such payment (together, the "**Required Confirmations**").

The Pre-funding Account Bank shall notify the Trustee as soon as reasonably practicable upon the failure by the Issuer to pay the Relevant Amount into the Pre-funding Account in accordance with these Conditions.

So long as any Bond is outstanding, save with the approval of the Trustee or any Extraordinary Resolution of the Bondholders, the Issuer shall not make (or cause to be made on its behalf) any withdrawal from the Pre-funding Account under any circumstances (other than in accordance with the Required Confirmations or in accordance with the Terms and Conditions of the Bonds), and the Pre-funding Account Bank shall be entitled to disregard any instruction to effect any such withdrawal from the Issuer (or any person acting on its behalf).

If the Relevant Amount has not been paid into the Pre-funding Account in full, or the Trustee does not receive the Required Confirmations, in each case by 11:00 a.m. (Hong Kong time) on the Business Day immediately following the Pre-funding Date (the "**Pre-funding Failure**"), the Trustee shall:

(1) as soon as reasonably practicable notify the LC Bank and the LC Proceeds Account Bank by facsimile of the occurrence of the Pre-funding Failure; and

(2) no later than 11:00 a.m. (Hong Kong time) on the second Business Day following the Pre-funding Date (x) give notice (the "**Pre-funding Failure Notice**") to the Bondholders of (I) the Pre-funding Failure and (II) the redemption of the Bonds in accordance with Condition 5(d) (*Mandatory Redemption upon Pre-funding Failure*) to occur as a result of the Pre-funding Failure and (y) issue a Demand to the LC Bank for the Mandatory Redemption Amount in respect of all of the Bonds then outstanding, **provided that**, in accordance with the terms of the Standby Letter of Credit, the Trustee need not physically present the Demand to the LC Bank and shall be entitled to draw on the Standby Letter of Credit by way of a Demand by authenticated SWIFT sent on its behalf.

After receipt by the LC Bank of such Demand on a Business Day, the LC Bank shall by 11:00 a.m. (Hong Kong time) on the fourth Business Day after such Business Day (or, if such Demand is received after 11:00 a.m. (Hong Kong time) on a Business Day, by 11:00 a.m. (Hong Kong time) on the fifth Business Day after such Business Day), pay to, or to the order of, the Trustee the amount in U.S. dollars specified in the Demand to the LC Proceeds Account.

"**Business Day**" means a day, other than a Saturday or a Sunday or a public holiday, on which banks are open for business in Hong Kong, Shenzhen and New York City.

See "*Terms and Condition of the Bonds – Form, Denomination, Status, Standby Letter of Credit and Pre-funding – Pre-funding*" *and* "*Appendix – Form of Standby Letter of Credit*".

Status of the Bonds	The Bonds constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Events of Default	Upon the occurrence of certain events described under Condition 8 (*Events of Default*), including without limitation, certain events in respect of the LC Bank, the Trustee at its discretion may and, if so requested in writing by holders of at least one-quarter of the aggregate principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or pre-funded and/or provided with security to its satisfaction) give written notice to the Issuer declaring the Bonds to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.
Cross-Acceleration	The Bonds will contain cross-acceleration provisions in relation to the Issuer, the Bank and the LC Bank and any of its subsidiaries as further described in Conditions 8(A)(c) and 8(B)(a) respectively.
Taxation	All payments of principal and interest in respect of the Bonds by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands or the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. Where such withholding or deduction is made by the Issuer by or within the PRC at the rate applicable on 2 September 2020 (the "**Applicable Rate**"), the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by the Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required. If the Issuer is required to make (i) such deduction or withholding by or within the PRC in excess of the Applicable Rate or (ii) any deduction or withholding by or within the British Virgin Islands, the Issuer shall pay such additional amounts (the "**Additional Amounts**") as will result in receipt by the Bondholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, subject to certain exceptions. See "*Terms and Conditions of the Bonds – Taxation*".
Final Redemption.	Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 10 September 2023, subject as provided in Condition 6 (*Payments*).

Tax Redemption	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to (but not including) the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (A) the Issuer has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 2 September 2020; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; **provided, however, that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Bonds were then due. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for tax reasons*".
Redemption on a Change of Control	A Bondholder shall have the right, at such Bondholders option, to require the Issuer to redeem all but not some only of that Bondholder's Bonds at 100 per cent. of their principal amount, together with accrued interest, upon the occurrence of a Change of Control. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Change of Control*". a "**Change of Control**" occurs when: (i) any Person or Persons, other than Persons directly or indirectly Controlled by the central or provincial government of the PRC, acting together by contract or otherwise, acquires Control of the Bank; (ii) the Bank consolidates with or merges into or sells or transfers all or substantially all of its assets to any Person that is not Controlled by the People's Government of Shanghai Municipality, unless the consolidation, merger, sale or transfer will not result in such other Person, individually or together with other Persons, acquiring Control of the Bank or its successor; or (iii) the Bank ceases to, directly or indirectly, own or control all the issued share capital of the Issuer;

"**Control**" over a Person means (i) the ownership, acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of such Person, whether obtained directly or indirectly, or (ii) the right to appoint and/or remove all or the majority of the members of the Bank's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise, or (iii) the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a person; and the term "**Controlled**" shall have the meaning correlative to the foregoing.

Mandatory Redemption upon Pre-funding Failure . . . . The Bonds shall be redeemed at their principal amount (the "**Mandatory Redemption Amount**") on the Interest Payment Date falling immediately after the date the Pre-funding Failure Notice is given to the Bondholders in accordance with Condition 1(d) (*Pre-funding*) (the "**Mandatory Redemption Date**"), together with interest accrued to, but excluding, the Mandatory Redemption Date.

Redemption Date . . . . . . If the holder of any Bond shall have exercised its right to require the Issuer to redeem its Bond under Condition 5(c) (*Redemption for Change of Control*) and a Pre-funding Failure Notice is given to the Bondholders in accordance with Condition 1(d) (*Pre-funding*) as a result of the Pre-funding Failure relating to the amount payable pursuant to such redemption, all but not some only of the Bonds then outstanding shall be redeemed at the Mandatory Redemption Amount in accordance with Condition 5(d) (*Redemption for Change of Control*) on the Put Settlement Date, together with interest accrued to but excluding such Put Settlement Date, **provided that** if such Pre-funding Failure occurs and concurrently a Pre-funding Failure Notice has been given or is given to the Bondholders in respect of a scheduled payment of principal or interest payable under Condition 4 (*Interest*) or Condition 5(a) (*Scheduled redemption*), the Put Settlement Date shall be the Mandatory Redemption Date.

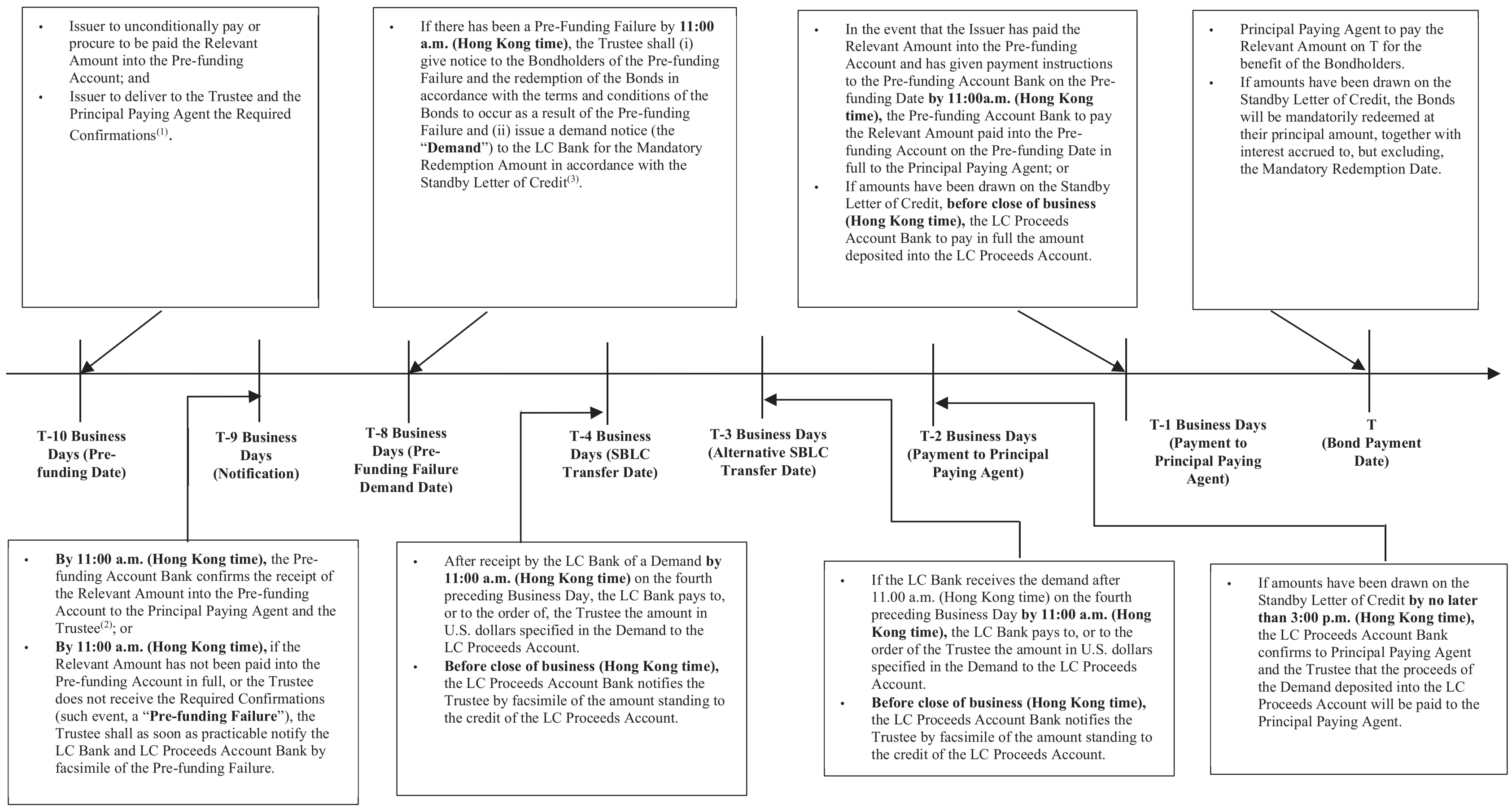
Mandatory Redemption upon Standby Letter of Credit ceasing to be enforceable . . . . The Bonds shall be redeemed at their principal amount, together with interest accrued up to, but excluding, the date of redemption, immediately upon the Standby Letter of Credit ceasing to be enforceable, valid or in full force and effect or upon the Standby Letter of Credit being modified, amended or terminated without the Trustee's consent.

Further Issues	The Issuer may from time to time, without the consent of the Bondholders and in accordance with the Trust Deed, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest and the timing to perform and complete the NDRC Post-issue Filing) so as to form a single series with the Bonds. However, such further securities may only be issued if (i) the Rating Agency which has provided credit ratings in respect of the Bonds has been informed of such issue; (ii) such issue will not result in any adverse change in the then credit rating of the Bonds; (iii) a further or supplemental standby letter of credit is issued by the LC Bank (or an amendment is made to the Standby Letter of Credit) on terms that are substantially similar to the Standby Letter of Credit (including that the stated amount of such further or supplemental standby letter of credit is at least equal to the sum of the principal of and an amount equal to one interest payment due on such further securities up to the maturity date of such securities plus 30 days) and (iv) such supplemental documents are executed and further opinions are obtained as the Trustee may require, as further set out in the Trust Deed. See "*Terms and Conditions of the Bonds – Further Issues*".
Governing Law	The Bonds, the Trust Deed, the Keepwell Deed and the Standby Letter of Credit are governed by English law.
Trustee	Citicorp International Limited.
Principal Paying Agent and Transfer Agent. . .	Citibank, N.A., London Branch.
Registrar.	Citibank, N.A., London Branch.
Pre-funding Account Bank and LC Proceeds Account Bank.	Citibank, N.A., Hong Kong Branch.
Clearing System.	The Bonds will initially be represented by beneficial interests in the Global Bond Certificate in registered form, which will be registered in the name of a nominee of, and deposited with, a common depositary for, Euroclear and Clearstream on the Issue Date. Beneficial interests in the Global Bond Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream. Except as described herein, individual bond certificates will not be issued in exchange for beneficial interests in the Global Bond Certificate.

Clearance and Settlement	The Bonds have been accepted for clearance by Euroclear and Clearstream under the following codes: ISIN: XS2212373828 Common Code: 221237382
Listing	Approval-in-principle has been received from the SGX-ST for the listing and quotation of the Bonds. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Approval in-principle obtained for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Bank or the Group (as defined herein) or the merits of the Bonds. For so long as the Bonds are listed and quoted on the SGX-ST and the rules of the SGX-ST so require, the Bonds will be traded on the SGX-ST is a minimum board lot size of U.S.$200,000 (or its equivalent in foreign currencies).
Rating	The Bonds are to be rated "A1" by Moody's. Such rating of the Bonds does not constitute a recommendation by Moody's to buy, sell or hold the Bonds and may be subject to suspension, reduction, revision or withdrawal at any time by Moody's.
Use of Proceeds	See "*Use of Proceeds*".
Keepwell Deed	The Bank will enter into the Keepwell Deed with the Issuer and the Trustee, as fully described under "*Description of the Keepwell Deed*". The Keepwell Deed does not constitute a guarantee by the Bank of the payment of any obligation, indebtedness or liability of the Issuer and may not give rise to a debt claim in the event of any insolvency proceedings in relation to the Bank.
Selling Restrictions	The Bonds and the Standby Letter of Credit will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "*Subscription and Sale*".

SUMMARY OF PAYMENT ARRANGEMENTS ON EACH SCHEDULED DUE DATE UNDER THE BONDS

The following diagram sets forth a summary of the pre-funding arrangements under the Bonds and the drawing arrangements in respect of the Standby Letter of Credit on each scheduled due date under the Bonds. The following diagram is not intended to be comprehensive and should be read in conjunction with "Terms and Conditions of the Bonds", the Trust Deed and the Agency Agreement referred therein and "Appendix – Form of Standby Letter of Credit". Words and expressions defined in the "Terms and Conditions of the Bonds" shall have the same meaning in this summary.



Notes:

1. The required confirmations consist of: (a) a Payment and Solvency Certificate signed by one director of the Issuer; and (b) a copy of the irrevocable payment instruction from the Issuer to the Pre-funding Account Bank requesting the Pre-funding Account Bank to pay the Relevant Amount paid into the Pre-funding Account on the Pre-funding Date in full to the Principal Paying Agent by no later than 11:00 a.m. (Hong Kong time) on the Business Day immediately preceding the due date for such payment.

2. The confirmation from the Pre-funding Account Bank to the Principal Paying Agent and the Trustee shall be by way of facsimile or email or other means of communication as the Principal Paying Agent and the Trustee may agree with the Pre-funding Account Bank.

3. In accordance with the terms of the Standby Letter of Credit, the Trustee needs not physically present the Demand to the LC Bank and shall be entitled to draw on the Standby Letter of Credit by way of a Demand by authenticated SWIFT sent on its behalf.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of the Bank as of and for the periods indicated.

The Bank's consolidated financial information as of and for the three years ended 31 December 2017, 2018 and 2019 was derived from its Audited Financial Statements which have been prepared and presented in accordance with PRC GAAP and have been audited by KPMG Huazhen in accordance with Auditing Standards for Certified Public Accountants in China. The Bank's summary consolidated financial information as of and for the three years ended 31 December 2017, 2018 and 2019 should be read in conjunction with its published Audited Financial Statements and the notes thereto.

The Bank's interim consolidated financial information as of and for the six months ended 30 June 2019 and 2020 contained in this Offering Circular are derived from the Bank's Interim Financial Statement. The Bank's interim consolidated financial information as of and for the six months ended 30 June 2019 and 2020 should be read in conjunction with its published Interim Financial Statement and the notes thereto. The Interim Financial Statement was prepared in conformity with PRC GAAP and reviewed by PricewaterhouseCoopers Zhong Tian LLP. The Interim Financial Statement has not been subject to an audit and consequently, should not be relied upon by investors to give the same quality of information associated with information that has been subject to an audit. In addition, the Interim Financial Statement should not be taken as an indication for the expected financial condition, results of operations and cash flows for the full financial year ending 31 December 2020.

PRC GAAP differs in certain material respects from IFRS. See "Summary of Significant Differences Between PRC GAAP and IFRS".

The Audited Financial Statements and Interim Financial Statement have been prepared in Chinese. English translations of the Audited Financial Statements are included elsewhere in this Offering Circular for reference only. Should there be any inconsistency between the Audited Financial Statements and the Financial Statements Translation, the Audited Financial Statements shall prevail. These Financial Statements Translation do not themselves constitute audited or reviewed financial statements and are qualified in their entirety by, and are subject to the more detailed information and the financial information set out or referred to in the Audited Financial Statements. None of the Joint Lead Managers, the Trustee, the Agents or their respective affiliates, officers, employees, directors, agents or advisers has independently verified or checked the accuracy of the Financial Statements Translation and can give no assurance that the information contained in the Financial Statements Translation is accurate, truthful or complete.

Investors should note that the Interim Financial Statement is only available in Chinese and has not been translated into English. Investors should endeavour to take the necessary steps to review (including to engage professional advisers to assist with reviewing) the Interim Financial Statement in making their investment decision in the Bonds.

The Bank publishes its interim financial information from time to time. Such financial information published by the Bank in the PRC is normally derived from its management accounts and is not audited or reviewed by independent auditors. As such, financial information published in the PRC by the Bank may not provide potential purchasers with the same quality of information associated with any audited information. Such financial information is not included in this Offering Circular and should not be relied upon by any investors in making their investment decisions in the Bonds.

Summary Consolidated Income Statements of the Audited Financial Statements

	Year ended 31 December		
	2017	2018	2019
	(RMB in thousands) *(audited)*	(RMB in thousands) *(audited)*	(RMB in thousands) *(audited)*
Interest income	60,082,285	75,877,060	78,611,095
Interest expense	(40,964,976)	(45,940,231)	(48,290,486)
Net interest income	**19,117,309**	**29,936,829**	**30,320,609**
Fee and commission	6,785,558	6,744,495	7,408,355
Fee and commission expense	(529,772)	(764,956)	(841,156)
Net fee and commission income	**6,255,786**	**5,979,539**	**6,567,199**
Other income	29,105	42,998	66,764
Net investment gains	9,636,523	7,906,133	11,075,168
Net (losses)/gains from changes in fair value	(5,569,912)	4,652,482	1,363,173
Net foreign exchange gains/(losses)	3,535,189	(4,718,719)	306,655
Other operating incomes	111,090	95,427	109,209
(Losses)/gains from asset disposals	9,905	(6,867)	(8,485)
Operating income	**33,124,995**	**43,887,822**	**49,800,292**
Taxes and surcharges	(343,679)	(446,728)	(470,956)
General and administrative expense	(8,105,358)	(9,006,391)	(9,948,556)
Credit losses	–	–	(17,149,101)
Impairment losses	(8,671,315)	(15,331,901)	–
Other operating expenses	(18,920)	(18,483)	(1,266)
Operating expenses	**(17,139,272)**	**(24,803,503)**	**(27,569,879)**
Operating profit	**15,985,723**	**19,084,319**	**22,230,413**
Non-operating income	122,727	199,037	240,460
Non-operating expenses	(25,988)	(31,484)	(93,784)
Profit before tax	**16,082,462**	**19,251,872**	**22,377,089**
Income tax expenses	(745,669)	(1,184,037)	(2,044,230)
Net profit for the year	**15,336,793**	**18,067,835**	**20,332,859**
Net profit classified by continuity of operations:			
Net profit from continuing operations	15,336,793	18,067,835	20,332,859
Net profit from discontinued operations	–	–	–
Attributable to:			
– Shareholders of the Bank	15,328,499	18,034,040	20,297,588
– Non-controlling interests	8,294	33,795	35,271

Summary Consolidated Statements of Financial Position of the Audited Financial Statements

	As of 31 December		
	2017	2018	2019
	(RMB in thousands) *(audited)*	**(RMB in thousands)** *(audited)*	**(RMB in thousands)** *(audited)*
Assets:			
Cash and deposits with central bank	136,063,645	145,105,775	140,256,924
Deposits with banks and other financial institutions	38,788,136	15,090,430	14,558,543
Placements with banks and other financial institutions	97,178,409	115,344,352	170,099,068
Financial assets at fair value through profit or loss	11,554,237	17,874,361	–
Derivative financial assets	839,088	1,237,616	16,443,915
Financial assets held under resale agreements	25,808,851	36,368,624	2,267,055
Interests receivable	7,680,426	9,760,277	–
Loans and advances to customers	643,191,324	818,360,196	941,220,627
Financial investments:			
Financial assets held for trading	–	–	318,055,345
Debt investments	–	–	560,309,534
Other debt investments	–	–	39,061,464
Investments in other equity instruments	–	–	515,374
Available-for-sale financial assets	420,684,813	401,779,521	–
Held-to-maturity investments	264,262,868	310,643,240	–
Investment securities classified as receivables	136,701,386	128,764,840	–
Long-term equity investments	395,131	402,120	422,778
Fixed assets	4,394,538	5,779,671	5,566,000
Intangible assets	510,670	536,143	743,640
Deferred tax assets	7,783,439	9,690,070	13,537,590
Other assets	11,929,977	11,035,163	14,024,086
Total assets	**1,807,766,938**	**2,027,772,399**	**2,237,081,943**
Liabilities:			
Borrowings from central bank	81,605,000	102,942,000	93,181,724
Deposits from banks and other financial institutions	328,654,261	368,968,350	394,617,512
Placements from banks and other financial institutions	51,801,096	68,336,138	74,165,011
Financial liabilities at fair value through profit or loss	–	7,168	400,427
Derivative financial liabilities	1,359,342	829,640	16,690,672
Financial assets sold under repurchase agreements	78,573,169	61,151,258	63,349,665
Deposits from customers	923,585,324	1,042,489,605	1,203,551,552
Employee benefits payable	2,978,946	3,700,168	4,384,435
Taxes payable	4,144,141	4,293,452	5,516,021
Interests payable	16,570,559	17,383,127	–
Provision	–	–	7,168,161
Debt securities issued	168,148,078	189,375,530	190,712,382
Deferred tax liabilities	55,741	–	–
Other liabilities	2,849,878	6,527,355	6,117,750
Total liabilities	**1,660,325,535**	**1,866,003,791**	**2,059,855,312**
Shareholders' equity			
Share capital	7,805,785	10,928,099	14,206,529
Other equity instruments	19,957,170	19,957,170	19,957,170
Capital reserve	28,452,203	25,331,364	22,052,934
Other comprehensive income	(571,337)	627,454	3,849,918
Surplus reserve	26,435,300	30,969,554	36,273,686
General reserve	25,780,256	25,804,758	28,434,363
Retained earnings	39,125,759	47,658,150	51,934,012
Total equity attributable to equity shareholders of the Bank	**146,985,136**	**161,276,549**	**176,708,612**
Non-controlling interests	**456,267**	**492,059**	**518,019**
Total equity	**147,441,403**	**161,768,608**	**177,226,631**
Total liabilities and equity	**1,807,766,938**	**2,027,772,399**	**2,237,081,943**

Selected Financial Ratios

	Year ended 31 December		
	2017	2018	2019
Profitable Indicators			
Return on average total assets (per cent) [(1)(7)]	0.86	0.94	0.95
Return on weighted average net assets attributable to holders of ordinary shares of the Bank (per cent) [(2)(7)]	12.63	12.67	12.94
Net interest margin (per cent) [(3)(7)]	1.38	1.81	1.93
Net interest spread (per cent.) [(4)(7)]	1.25	1.76	1.71
Return on risk-weighted assets (per cent) [(5)(7)]	1.38	1.38	1.34
Cost-to-income ratio (per cent) [(7)]	24.47	20.52	19.98

Notes:

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

(2) Calculated by dividing the net profit attributable to the shareholders of the Bank for the year by the average balance of shareholders' equity at the beginning and at 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 average balance of total interest-earning assets.

(5) Calculated by dividing the net profit attributable to the shareholders of the Bank for the period by the average balance of risk-weighted assets at the beginning and at the end of the period.

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

(7) Calculated on annualised basis.

	As of 31 December		
	2017	2018	2019
Capital Adequacy Indicators:			
Calculated in accordance with the Capital Regulations [(1)]			
Capital adequacy ratio (per cent.)	14.33	13.00	13.84
Tier 1 capital adequacy ratio (per cent.)	12.37	11.22	10.92
Core Tier 1 capital adequacy ratio (per cent.)	10.69	9.83	9.66

Note:

(1) Ratio as of 31 December 2017, 2018 and 2019 are calculated in accordance with the Measures on Capital Management of Commercial Banks (Trial)(商業銀行資本管理辦法(試行)) and other relevant regulations.

	As of 31 December		
	2017	2018	2019
Asset Quality Indicators			
Nonperforming loans ratio (per cent.) [(1)]	1.15	1.14	1.16
Allowance to non-performing loans (per cent.) [(2)]	272.52	332.95	337.15
Allowance to total loans ratio (per cent.) [(3)]	3.14	3.80	3.90

Notes:

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

(2) Allowance to non-performing loans = the allowance for impairment losses on loans and advances to customers/the total non-performing loans.

(3) Allowance to total loans ratio = the allowance or impairment losses on loans and advances to customers/the total loans and advances to customers.

Summary Consolidated Income Statements of the Interim Financial Statement

	Six months ended 30 June	
	2019	**2020**
	(RMB in thousands) *(unaudited but reviewed)*	**(RMB in thousands)** *(unaudited but reviewed)*
Interest income	37,748,607	40,929,289
Interest expense	(23,454,932)	(23,882,593)
Net interest income	**14,293,675**	**17,046,696**
Fee and commission	3,753,694	4,018,852
Fee and commission expense	(349,434)	(329,893)
Net **fee and commission income**	**3,404,260**	**3,688,959**
Other income	29,561	5,026,385
Net investment gains	5,926,999	47,179
Net (losses)/gains from changes in fair value	1,559,064	(276,120)
Net foreign exchange gains/(losses)	(133,394)	(146,999)
Other operating incomes	70,697	25,714
Losses from asset disposals	(277)	(32)
Operating income	**25,150,585**	**25,411,782**
Taxes and surcharges	(225,731)	(266,803)
General and administrative expenses	(4,613,373)	(4,376,578)
Credit losses	(8,306,100)	(8,578,676)
Other operating expenses	(625)	(146)
Operating expenses	**(13,145,829)**	**(13,222,203)**
Operating profit	**12,004,756**	**12,189,579**
Add: Non-operating income	98,112	102,562
Less: Non-operating expenses	(34,310)	(36,772)
Profit before tax	**12,068,558**	**12,255,369**
Less: Income tax expenses	(1,328,873)	(1,107,243)
Net profit	**10,739,685**	**11,148,126**
Net profit classified by continuity of operations:		
Net profit from continuing operations	10,739,685	11,148,126
Net profit from discontinued operations	–	–
Attributable to:		
– Equity shareholders of the Bank	10,713,567	11,131,242
– Non-controlling interests	26,118	16,884
Other comprehensive income, net of tax	**496,321**	**491,004**
Total comprehensive income	**11,236,006**	**11,639,130**
Total comprehensive income attributable to:		
Equity shareholders of the Bank	11,209,888	11,622,246
Non-controlling interests	26,118	16,884
Basic and diluted earnings per share (RMB)	0.75	0.78

Summary Consolidated Statements of Financial Position of the Interim Financial Statement

	As of 31 December 2019	As of 30 June 2020
	(RMB in thousands)	(RMB in thousands)
	(audited)	*(unaudited but reviewed)*
Assets:		
Cash and deposits with central bank	140,256,924	164,340,124
Deposits with banks and other financial institutions	14,558,543	15,077,173
Placements with banks and other financial institutions	170,099,068	163,080,911
Derivative financial assets	16,443,915	17,962,739
Financial assets held under resale agreements	2,267,055	26,498,212
Loans and advances to customers	941,220,627	996,277,794
Financial investments:		
Financial assets held for trading	318,055,345	345,858,456
Debt investments	560,309,534	576,404,541
Other debt investments	39,061,464	39,780,209
Investments in other equity instruments	515,374	446,031
Long-term equity investments	422,778	428,152
Fixed assets	5,566,000	5,467,464
Intangible assets	743,640	718,457
Deferred tax assets	13,537,590	14,478,396
Other assets	14,024,086	21,410,701
Total assets	**2,237,081,943**	**2,388,229,360**
Liabilities:		
Borrowings from central bank	93,181,724	97,800,245
Deposits from banks and other financial institutions	394,617,512	417,925,894
Placements from banks and other financial institutions	74,165,011	79,263,225
Financial liabilities at fair value through profit or loss	400,427	–
Derivative financial liabilities	16,690,672	17,494,569
Financial assets sold under repurchase agreements	63,349,665	71,939,402
Deposits from customers	1,203,551,552	1,301,682,137
Employee benefits payable	4,384,435	4,171,983
Taxes payable	5,516,021	3,627,177
Provision	7,168,161	6,840,771
Debt securities issued	190,712,382	177,937,706
Other liabilities	6,117,750	26,369,800
Total liabilities	**2,059,855,312**	**2,205,052,909**
Shareholders' equity		
Share capital	14,206,529	14,206,529
Other equity instruments	19,957,170	19,957,170
Capital reserve	22,052,934	22,052,934
Other comprehensive income	3,849,918	4,340,922
Surplus reserve	36,273,686	42,256,088
General reserve	28,434,363	31,453,761
Retained earnings	51,934,012	48,380,843
Total equity attributable to equity shareholders of the Bank	**176,708,612**	**182,648,247**
Non-controlling interests	**518,019**	**528,204**
Total equity	**177,226,631**	**183,176,451**
Total liabilities and equity	**2,237,081,943**	**2,388,229,360**

Summary Consolidated Cash Flow Statements of the Interim Financial Statement

	Six months ended 30 June	
	2019	2020
	(RMB in thousands) *(unaudited but reviewed)*	**(RMB in thousands)** *(unaudited but reviewed)*
Cash flows from operating activities:		
Net decrease in deposits with central bank	3,133,858	1,939,348
Net decrease in deposits with banks and other financial institutions	512,231	–
Net decrease in financial assets held under resale agreements	11,152,196	–
Net increase in borrowings from central bank	–	3,622,074
Net increase in deposits from banks and other financial institutions	46,466,971	22,578,244
Net increase in placements from banks and other financial institutions	13,003,459	4,633,932
Net decrease in placements with banks and other financial institutions	–	4,393,684
Net increase in financial liabilities at fair value through profit or loss	373,985	–
Net increase in financial assets sold under repurchase agreements	3,820,524	8,553,522
Net increase in deposits from customers	102,391,492	98,039,245
Interest receipts	28,417,352	30,401,414
Fee and commission receipts	4,047,241	4,019,869
Proceeds from other operating activities	888,734	15,916,513
Sub-total of cash inflows	**214,208,043**	**194,097,845**
Net increase in deposits with banks and other financial institutions	–	(259,726)
Net increase in placements with banks and other financial institutions	(27,463,397)	–
Net increase in loans and advances to customers	(80,352,226)	(62,877,397)
Net increase in financial assets held for trading purpose	(3,616,947)	(21,103,270)
Net decrease in financial liabilities at fair value through profit or loss	–	(398,725)
Net decrease in borrowings from central bank	(13,335,000)	–
Interest payments	(17,115,938)	(19,052,148)
Fee and commission payments	(325,653)	(491,460)
Payment to and for employees	(3,016,718)	(3,189,302)
Payment of various taxes	(3,662,777)	(5,977,374)
Payment for other operating activities	(14,290,879)	(9,163,597)
Sub-total of cash outflows	**(163,179,535)**	**(122,512,999)**
Net cash inflows from operating activities	**51,028,508**	**71,584,846**
Cash flows from investing activities:		
Proceeds from disposal of investments	267,024,619	219,505,452
Investment returns received	15,544,757	15,149,914
Net proceeds from disposal of long-term assets	1,328	3,988
Sub-total of cash inflows	**282,570,704**	**234,659,354**
Payment for acquisition of investments	(300,935,281)	(242,130,798)
Payment for acquisition of long-term assets	(249,711)	(193,577)
Sub-total of cash outflows	**(301,184,992)**	**(242,324,375)**
Net cash outflows from investing activities	**(18,614,288)**	**(7,665,021)**
Cash flows from financing activities:		
Proceeds from issuance of debt instruments	402,250,393	287,935,014
Sub-total of cash inflows	**402,250,393**	**287,935,014**
Repayment of debt securities	(443,942,978)	(301,107,165)
Interest paid on debt securities	(3,820,284)	(2,311,747)
Dividends paid	(4,985)	(9,963)
Sub-total of cash outflows	**(447,768,247)**	**(303,428,875)**
Net cash outflows from financing activities	**(45,517,854)**	**(15,493,861)**
Effect of foreign exchange rate changes on cash and cash equivalents	(6,567)	198,851
Net increase/(decrease) in cash and cash equivalents	(13,110,201)	48,624,815
Add: cash and cash equivalents at the beginning of the period	**85,401,765**	**47,309,014**
Cash and cash equivalents at the end of the period	**72,291,564**	**95,933,829**

Selected Financial Ratios of Interim Financial Statements

	Six months ended 30 June	
	2019	**2020**
Profitable Indicators		
Return on average total assets (per cent) (1)(7)	1.02	0.96
Return on weighted average net assets attributable to holders of ordinary shares of the Bank (per cent) (2)(7)	14.62	13.69
Net interest margin (per cent) (3)(7)	1.93	1.92
Net interest spread (per cent.) (4)(7)	1.69	1.77
Return on risk-weighted assets (per cent) (5)(7)	1.45	1.37
Cost-to-income ratio (per cent) (6)	18.34	17.22

Notes:

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

(2) Calculated by dividing the net profit attributable to the shareholders of the Bank for the year by the average balance of shareholders' equity at the beginning and at 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 average balance of total interest-earning assets.

(5) Calculated by dividing the net profit attributable to the shareholders of the Bank for the period by the average balance of risk-weighted assets at the beginning and at the end of the period.

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

(7) Calculated on annualised basis.

	As of 31 December 2019	As of 30 June 2020
Capital Adequacy Indicators:		
Calculated in accordance with the Capital Regulations (1)		
Capital adequacy ratio (per cent.)	13.84	13.24
Tier 1 capital adequacy ratio (per cent.)	10.92	10.75
Core Tier 1 capital adequacy ratio (per cent.)	9.66	9.55

Note:

(1) Ratio as of 31 December 2019 and 30 June 2020 are calculated in accordance with the Measures on Capital Management of Commercial Banks (Trial)(商業銀行資本管理辦法(試行)) and other relevant regulations.

	As of 31 December 2019	As of 30 June 2020
Asset Quality Indicators		
Nonperforming loans ratio (per cent.) (1)	1.16	1.19
Allowance to non-performing loans (per cent.) (2)	337.15	330.61
Allowance to total loans ratio (per cent.) (3)	3.90	3.92

Notes:

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

(2) Allowance to non-performing loans = the allowance for impairment losses on loans and advances to customers/the total nonperforming loans.

(3) Allowance to total loans ratio = the allowance or impairment losses on loans and advances to customers/the total loans and advances to customers.

RISK FACTORS

Any investment in the Bonds is subject to a number of risks. Prior to investing in the Bonds, prospective investors should carefully consider risk factors associated with any investment in the Bonds, the Standby Letter of Credit, the businesses of the Bank and the LC Bank and the industries in which each of them operates together with all other information contained in this Offering Circular, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Bonds" or elsewhere in this Offering Circular have the same meanings in this section.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Bonds and should be used as guidance only. The Issuer and the Bank believe that the following factors may affect their ability to fulfil their obligations under the Bonds. All of these factors are contingencies that may or may not occur and the Issuer and the Bank are not in a position to express a view as to the likelihood of any such contingency arising. Additional risks and uncertainties relating to the Bank and the LC Bank that are not currently known to the Issuer or the Bank or that they currently deem immaterial, may individually or cumulatively have a material adverse effect on the businesses, prospects, results of operations and/or financial position of the Bank or the LC Bank and, if any such risk occurs, the price of the Bonds may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Bonds is suitable for them in light of the information in this Offering Circular and their personal circumstances.

RISKS RELATING TO THE BANK'S LOAN PORTFOLIO

If the Bank is unable to effectively maintain the quality of its loan portfolio, its financial condition and results of operations may be adversely affected.

As of 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's total loans and advances to customers were RMB664.0 billion, RMB850.7 billion, RMB972.5 billion and RMB1,028.9 billion, respectively. As of the same dates, the Bank's non-performing loan ratio, which is the ratio of loans classified as substandard, doubtful and loss, was 1.15 per cent., 1.14 per cent., 1.16 per cent. and 1.19 per cent., respectively. There is no assurance that the Bank will be able to maintain or lower its current non-performing loan ratio in the future or that the quality of its existing or future loans and advances to customers will not deteriorate. The quality of the Bank's loan portfolio may deteriorate due to various factors beyond its control, such as the restructuring of the PRC economy, the slow recovery of global economies, the deterioration in global creditworthiness, the recent adverse macroeconomic trends in China or other parts of the world as well as the occurrence of natural disasters and other catastrophes, all of which may adversely affect the operation, financial condition or liquidity of the Bank's borrowers and weaken their repayment ability. The actual or perceived deterioration in creditworthiness of borrowers, declines in property prices, higher unemployment rates and reduced profitability of borrowers may also cause the Bank's asset quality to deteriorate and may lead to increases in allowance made for impaired loans. If the Bank's non-performing loans or the allowance for impairment losses increase in the future, the results of its operations and financial conditions may be materially and adversely affected. In addition, the sustainability of the Bank's growth also depends largely on its ability to effectively manage its credit risk and closely monitor the quality of its loan portfolio. The Bank seeks to continuously improve its credit risk management policies, procedures and systems. See "*Risk Management – Credit Risk Management*". However, the Bank's credit risk management policies, procedures and systems may not be completely effective or free from deficiency. Failure of the Bank's credit risk management policies, procedures and systems may result in an increase in its non-performing loans and adversely affect the quality of its loan portfolio.

The Bank's allowance for impairment losses may not be sufficient to cover the actual losses on its loan portfolio in the future.

As of 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's allowance for impairment losses on loans and advances was RMB20.8 billion, RMB32.3 billion, RMB37.9 billion and RMB40.4 billion, respectively, the ratio of its allowance for impairment losses to total loans was 3.14 per cent., 3.80 per cent., 3.90 per cent. and 3.92 per cent., respectively, and the ratio of its allowance for impairment losses to non-performing loans was 272.52 per cent., 332.95 per cent., 337.15 per cent. and 330.61 per cent., respectively. Such allowance is based on the Bank's current assessment of, and expectations concerning, various factors affecting the quality of its loan portfolio. These factors include but are not limited to the Bank's borrowers' operation condition, repayment ability and repayment intention, the realisable value of any collateral, the ability of the guarantors of its borrowers to fulfil their obligations and the implementation of the Bank's credit policies, as well as the economic conditions, macroeconomic policies, interest rates, exchange rates and legal and regulatory environment in China and abroad. Many of these factors are beyond the Bank's control, and therefore its assessment and expectations on these factors may differ from future developments. The adequacy of the Bank's allowance for impairment losses depends on the reliable application of its risk assessment system to estimate these potential losses, as well as its ability to accurately collect, process and analyse the relevant statistical data.

The Bank adopts prudent strategies for allowance for impairment losses. However, if its assessments of, or expectations concerning, the factors that affect the quality of its loan portfolio differ from actual developments, if its assessments result prove to be inaccurate, or if its application of the assessment systems or its ability to collect, process and analyse relevant statistical data proves to be insufficient, the Bank's allowance for impairment losses may not be adequate to cover its actual losses and the Bank may need to make additional allowance for impairment losses, which may significantly reduce its profit and therefore materially and adversely affect its business, asset quality, financial conditions and results of operations.

The Bank is exposed to risks of high concentration of loans to certain industries and customers.

A significant downturn in any industry in which the Bank's loans are highly concentrated may lead to a significant increase in the amount of non-performing loans, and may negatively affect the level of new lending or refinancing of existing loans to borrowers in such industry, which may materially and adversely affect the Bank's asset quality, financial conditions and results of operations. As of 30 June 2020, loans to customers operating in the (i) real estate, (ii) leasing and commercial services, (iii) manufacturing, (iv) public utilities and (v) wholesale and retail trade industries represented 14.47 per cent., 15.68 per cent., 6.94 per cent., 5.11 per cent. and 5.21 per cent., respectively, of the Bank's total loans and advances to customers outstanding, and the corporate loans represented 59.49 per cent. of its total loans and advances to customers outstanding.

The Bank is exposed to the real estate market in the PRC as a result of residential mortgage loans to individual customers and other loans secured by real property collateral. In addition to loans to corporate customers in the real estate business, as of 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's residential mortgage loans represented 37.1 per cent., 26.3 per cent., 29.4 per cent. and 32.5 per cent., respectively, of its total personal loans outstanding as of the same dates. In recent years, the PRC government has imposed and may continue to impose macroeconomic control measures for the real estate market. For instance, the PBOC and the CBIRC issued new policies on residential property loans in October 2014. New policies stipulated, among others, that (i) for household applying loans to buy the first ordinary house as their home, the minimum down payment ratio shall be 30 per cent. and the floor loan interest rate shall be 0.7 time of the benchmark interest rate, and the specific terms shall be determined at the discretion of the bank based on the risk profile of the borrower; (ii) for household that owns a home and has paid off the mortgage loan applying for mortgage loan to buy another ordinary commercial house as their home to improve living conditions, the bank may apply the first home mortgage loan policy; (iii) in cities that have lifted home buying restrictions on residents or those that have not imposed such restrictions, for household that owns two homes or more and has paid off all the mortgage loans applying for a mortgage loan to buy another house, the bank shall make prudent decisions and determine the down payment ratio and loan interest rate based on the solvency, credit standing of the borrower and other factors of the borrower. See "*Banking Regulations and Supervision in the PRC*". The macroeconomic control measures for the real estate market and changes of those measures may affect the growth and quality of the Bank's loans to real estate developers and individual home-buyers.

As of 30 June 2020, the Bank's loans to its ten largest single borrowers amounted to RMB74.0 billion, which represented 7.2 per cent. of its total loan portfolio. The Bank places great emphasis on management of loan concentration and assessment of applicants based on their credibility and prospects. In compliance with regulatory requirements, the Bank's loans to a single related-party represent no more than 10 per cent. of the net capital; the credit granted to a group to which a single related party belongs account for no more than 15 per cent. of the net capital. However, if any of the performing loans to the ten largest single borrowers and group borrowers deteriorate or become non-performing or if any of the non-performing loans to the ten largest single borrowers and group borrowers deteriorates, the Bank's asset quality, financial conditions and results of operations may be materially and adversely affected.

Furthermore, the Bank's loans to corporate customers are concentrated in SMEs. The loans to SMEs are, compared to the Bank's other loans, generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. The Bank has adopted a number of measures to manage these risks, such as imposing standardised entry management of customers and products, profile management, effective risk prevention measures, such as requiring collateral and guarantee from high quality guarantee corporation, and implementation of different pricing policies and risk tolerance based on risk profile, so as to increase revenue to cover costs of risk and lead to a win-win situation by fulfilling social responsibility to support growth of real economy and assist customers to develop differentiated competitive strengths. However, there can be no assurance that these measures will effectively reduce or eliminate the risks relating to such customers. If the Bank's loans to SMEs deteriorate, the Bank's asset quality, financial conditions and results of operations may be materially and adversely affected.

The collateral or guarantees securing the Bank's loans may not be sufficient, and the value of the collateral provided by borrowers may decline significantly. As such the Bank may not be able to realise the full value of the collateral or guarantees in a timely manner or at all.

A significant portion of the Bank's loans is secured by collateral or guarantees. As of 30 June 2020, 31.21 per cent. and 21.30 per cent. of the Bank's total loans were secured by tangible assets other than monetary assets and by monetary assets, respectively, and 18.29 per cent. of its total loans were secured by guarantees.

As of 30 June 2020, the pledged collateral securing the Bank's loans included, among other things, bond or equity securities and real properties located in China. The value of the collateral securing the Bank's loans may significantly fluctuate or decline due to factors beyond its control, including macroeconomic factors affecting the economy of China. For example, a downturn in the real estate market of China may result in a decline in the value of the real properties securing the Bank's loans to levels significantly below the outstanding principal and interest balances of such loans. Although the Bank has already imposed strict requirements on the portion of secured loans of real estate, any decline in the value of such collateral may reduce the amounts it can recover from such collateral and increase its impairment losses. In addition, the Bank's regular internal re-valuations of collateral may not be carried out in a timely manner and, as a result, it may not have updated valuation of such collateral, which may adversely affect the accuracy of the assessment of the Bank's loans secured by such collateral.

The Bank sometimes lends money on guarantees provided by the borrowers' affiliates. Such loans and advances are generally not secured by any proprietary interest other than guarantees. As a result, a significant deterioration in the financial condition of a guarantor could significantly decrease the amounts the Bank may recover under such guarantees. Moreover, a court or other judicial or government authorities may declare a guarantee to be invalid or otherwise decline or fail to enforce such guarantees. The Bank may not be able to recover all or any part of the guaranteed amounts as a result.

In China, the procedures for disposing or otherwise realising the value of collateral in the form of non-monetary assets may be protracted and it may be difficult to enforce claims in respect of certain collateral. As a result, it may be difficult and time-consuming for the Bank to take control of or dispose certain collateral securing non-performing loans. For example, in accordance with the Directive on Foreclosure of Mortgage on Residential Properties issued by the PRC Supreme Court (最高人民法院關於人民法院執行設定抵押的房屋的規定), effective from 21 December 2005, a court cannot evict a borrower or his or her dependents from his or her principal residence during the six-month grace period after the court approves a lender's petition to foreclose. In addition, under certain circumstances, the Bank's rights to the collateral securing its loans may have lower priority than certain other rights.

The Bank's inability to realise the full value of the collateral and guarantees securing its loans on a timely basis may materially and adversely affect its asset quality, financial condition or results of operations.

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

The Bank classifies its loans using a five-category loan classification system in accordance with the guidelines set forth by the PRC regulators. The five categories are normal, special mention, substandard, doubtful and loss. The Bank assesses its loans for impairment, determines a level of allowance for impairment losses and recognises any related provisions made in the current year/period using the five-category classification system. Its loan classification and provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, the Bank's loan classification as well as its allowance for impairment losses may differ from those reported by international banks incorporated in other countries or regions.

If the Bank does not maintain the growth of its loan portfolio, its business operations and financial condition may be materially and adversely affected.

The Bank's loans and advances to customers, net of loan loss allowance, have grown in the past few years, increasing from RMB643.2 billion as of 31 December 2017 to RMB818.3 billion as of 31 December 2018, and further increased to RMB941.2 billion as of 31 December 2019 and to RMB996.3 billion as of 30 June 2020. The growth of the Bank's loan portfolio may be affected by various factors, such as China's macroeconomic policies and capital constraints and the business transformation and restructure of asset allocation of the Bank. In the future, the growth rate of the Bank's loan portfolio may slow down, if at all. In addition, in response to the constraints from the amount of the Bank's regulatory capital and the intention to reduce the use of venture capital, the Bank may adopt strategies to reduce its reliance on credit business and expand activities in other businesses that require relatively lower capital, such as various commission and fee business. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby materially and adversely affect its business, business prospects, financial conditions and results of operations.

Deteriorations in the debt repayment abilities of the local government financing vehicles which the Bank extends loans to may materially and adversely affect its asset quality, financial condition and results of operations.

Chinese commercial banks regularly extend loans to local government financing vehicles. As defined by the State Council, local government financing vehicles are independent legal persons that assume financing functions for government investment projects and that are funded through injection of assets such as land and equity by local governments and their subordinate departments or agencies.

The Bank's loans to government financing vehicles are primarily used in capital intensive projects including infrastructure, land resource centre and transportation infrastructure projects. The Bank strongly supports the provincial and municipal government financing vehicles with strong financing capacity and its loans to government financing vehicles are mainly concentrated in tier-1 cities, such as Shanghai, Beijing and Shenzhen. With the aim of reinforcing the risk management of loans to local government financing vehicles, the State Council, the CBIRC and the PBOC, along with several other PRC regulatory authorities, promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to local government financing vehicles. The Bank has taken various measures to control the credit risk of loans to government financing vehicles in accordance with such regulatory guidelines. In particular, it has controlled the total loans to local government financing vehicles and enhanced the risk management of such loans. See also "*Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans*". Many factors, including slowdown of economic growth, unfavourable changes to state policies, adverse changes to the financial condition of local government may adversely affect the debt repayment abilities of these local government financing vehicles, which may in turn materially and adversely affect the Bank's asset quality, financial conditions and results of operations.

RISKS RELATING TO THE BANK'S BUSINESS

If the Bank is not effective in implementing enhanced risk management and internal control policies and procedures and introducing certain information technology systems to assist with its risk management and internal control, its business and prospects may be materially and adversely affected.

The Bank has continuously enhanced and refined its risk management and internal control policies and procedures in recent years in an effort to refining its risk management framework and enhancing its risk management capabilities. See "*Risk Management*". However, there is no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect it against, all credit and other risks. Some of these risks may yet be identified, unforeseeable or higher than what the Bank originally expected or the historical level. In addition, given the continued refinement and improvement of certain aspects of the Bank's risk management and internal control policies and procedures, it will require additional time to implement these policies and procedures, fully measure the impact of and evaluate the compliance with these policies and procedures. Moreover, employees will require training to adjust to the changes of these policies and procedures and there is no assurance that the Bank's employees will be able to consistently comply with or correctly apply these policies and procedures.

Moreover, the Bank's risk management capabilities are limited by the information, tools or technologies available to it. For example, it may not be able to effectively monitor credit risk due to limited information resources or tools. In recent years, the Bank has introduced or refined certain risk management tools and systems to assist it in better managing its risks, including the credit rating system. However, the Bank's ability to operate such systems and to monitor and analyse the effectiveness of such systems will be subject to continuous testing. If the Bank is not effective in improving its risk management and internal control policies, procedures and systems, or if the intended results of such policies, procedures or systems are not achieved in a timely manner, its asset quality, business, financial conditions and results of operations may be materially and adversely affected.

The Bank's business and operations are mainly located in Shanghai and other regions of the Yangtze River Delta.

The Bank's business and operations are mainly located in Shanghai and other regions of the Yangtze River Delta. As of 30 June 2020, 44.91 per cent. of the Bank's total loans were granted by its branches and outlets in Shanghai and 23.18 per cent. of the Bank's total loans were granted by its branches and outlets in other regions of the Yangtze River Delta. Although the Bank has expanded and expects to further expand its operations beyond Shanghai and the Yangtze River Delta (for example, the Bank has established branches in cities being economic and financial centres in Bohai Rim Region, the Pearl River Delta and Central and Western China, such as Beijing, Shenzhen, Tianjin and Chengdu), subject to market conditions, the receipt of applicable regulatory approvals and the results of its existing operations, the Bank expects to continue to derive the majority of its loans, deposits, income and profit from its operations in Shanghai and other regions in the Yangtze River Delta in the foreseeable future. As a result, any adverse change in the economic development or financial condition of Shanghai and other regions in the Yangtze River Delta, or any inaccurate assessment or failure in the management of the credit risks regarding borrowers who are located, or have substantial operations, in Shanghai and other regions in the Yangtze River Delta, or any significant natural disaster or catastrophic event occurring in Shanghai and other regions in the Yangtze River Delta may negatively and adversely affect the Bank's operations.

The Bank's expanding range of products, services and business activities expose it to new risks.

The Bank has been increasing its product development efforts and has been expanding the range of its products and services to meet the needs of its customers and to enhance its competitiveness. For example, (i) the Bank revamped its corporate banking products and services, targeting growth in value-added products and services such as investment banking and alternative investments services as well as products and services to SMEs; (ii) the Bank has prioritised the development of its retail financial business by focusing on wealth management and private banking and further strengthening its leading position in pension distribution business in Shanghai and (iii) the Bank has focused on product innovations and service quality improvement in order to achieve greater customer satisfaction.

Expansion of the Bank's products, services and business activities exposes it to a number of risks and challenges, including but not limited to:

- insufficient experience or expertise in certain new products and services, especially in business areas where the Bank historically did not have a strong presence;
- imitation of the Bank's new products and services by its competitors;
- failure of the Bank's new products and services to be accepted by its customers or meet its expectations for profitability;
- inability to hire additional qualified personnel on commercially reasonable terms;
- insufficient financial, operational, management and other human resources to support the Bank's expanded range of products and services;
- inability to obtain regulatory approvals for the Bank's new products or services; and
- unsuccessful attempts to enhance the Bank's risk management and internal control capabilities and information technology systems to support a broader range of products and services.

If the Bank is unable to successfully expand the range of its products and services as planned due to these risks or to achieve the intended results with respect to its new products and services, its business, financial conditions and results of operations may be adversely affected.

If the Bank fails to maintain the growth rate in its customer deposits or if there is a significant decrease in customer deposits, its business operations and liquidity may be materially and adversely affected.

Customer deposits has been the Bank's primary source of funding. As of 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's total customer deposits was RMB923.6 billion, RMB1,042.5 billion, RMB1,186.1 billion and RMB1,284.1 billion, respectively. As of the same dates, the Bank's personal deposits was RMB205.3 billion, RMB230.3 billion, RMB291.7 billion and RMB319.1 billion, and its corporate deposits was RMB651.6 billion, RMB729.9 billion, RMB894.3 billion and RMB965.0 billion, respectively. However, many factors can affect the growth of customer deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of investment alternatives and personal customers' changing perceptions toward savings. For example, with the continuing development of China's capital markets, the Bank's customers may reduce their deposits and increase their investment in securities for a higher return. In addition, with continuous development of capital market and internet financial products and the customer's increasing interest in diversified wealth management and insurance products in China, the Bank may not be able to maintain the demand and time deposits from customers at all times. For example, as some internet financial products guarantee a higher interest rate as compared to the interest rate of short-term deposits of banks, some of the Bank's customers choose not to roll over their deposits after withdrawing expired demand or time deposits and decide to purchase such internet financial products instead. The Bank has devoted substantial efforts in expanding online direct sales channels or products. However, the growth of its deposits may be affected by internet financial products in the future.

If the Bank fails to maintain the growth in its deposits or if a substantial portion of depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, the Bank's liquidity position, financial conditions and results of operations may be materially and adversely affected. In such event, the Bank may need to, to the extent possible, seek more expensive sources of funding.

The Bank manages its liquidity through short-term lending in interbank market. The Bank's lending costs may increase as a result of the fluctuation of interest rate in interbank market, which may materially and adversely affect its liquidity, financial conditions and results of operation.

The Bank manages its liquidity through short-term lending in interbank market. Pursuant to the Notice on Regulating Interbank Business between Financial Institutions (《關於規範金融機構同業業務的通知》) jointly issued by the PBOC and other government authorities on 24 April 2014, the net amount of interbank lending of a commercial bank to a single financial institution which is a legal person (excluding settlement interbank deposits), after deducting assets with zero risk weight, shall not exceed 50 per cent. of its Tier 1 capital. The balance of interbank financing of a commercial bank shall not exceed one third of its total liabilities. Subject to the above laws and regulations and other applicable requirements, the Bank may not be able to acquire sufficient short-term funds from interbank market continuously, and regulatory authorities may further impose restrictions on the interbank business and amount of financing. As a result, lending costs may increase, which may adversely affect the Bank's liquidity.

In addition, interest rate in interbank market in China may fluctuate due to various factors, including irregular fluctuation of short-term interbank lending rate, such as the dramatic fluctuations in the interbank short-term rate which occurred in June and July 2013. The changes of market interest rates may materially affect the Bank's short-term lending cost in the interbank market. Significant increase in interest rate may materially and adversely affect the lending cost and liquidity of the Bank.

Significant fluctuation in interest rate may also materially affect the asset value of the Bank. For example, the fair value of its bonds investment with fixed returns for trading may decrease due to the significant increase in interest rate, which may materially and adversely affect its financial conditions and results of operation as a result.

The Bank is subject to credit risk with respect to certain off-balance sheet commitments.

In the normal course of its business, the Bank makes commitments which, under applicable accounting principles, are not reflected as liabilities on its balance sheet, including bank acceptances, loan commitments, guarantees and letters of credit to guarantee the performance of its customers. These off-balance sheet commitments subject the Bank to credit risks because these commitments may need to be fulfilled by the Bank in certain circumstances. If the Bank is unable to recover payment from its customers, its financial conditions and results of operations could be materially and adversely affected.

The Bank faces certain risks relating to its wealth management products.

In recent years, the Bank has been actively developing its wealth management business through expanding the scale and type of wealth management products. For the years ended 31 December 2018 and 2019, the fee income from wealth management business amounted to RMB767 million and RMB1.3 billion, respectively. For the six months ended 30 June 2020, the fee income from wealth management business amounted to RMB787 million, an increase of 73.73 per cent. compared to the fee income from wealth management business amounted to RMB453 million for the six months ended 30 June 2019.

As most of the Bank's wealth management products are non-guaranteed products, it is not liable for the losses incurred by investors of such products in principle. However, investment losses incurred by such investors may damage the Bank's reputation and its prospects and wealth management business may be affected.

In addition, the maturity of wealth management products issued by the Bank is shorter than the terms of relevant assets in general. The Bank may be exposed to liquidity risk due to such mismatch between maturities, and may be required to supplement the funds by issuing new wealth management products, disposal of relevant assets upon the maturity of such products or other methods.

Regulatory authorities in China have already issued regulatory policies regarding the wealth management business of commercial banks in China. For further details, please refer to "*Banking Regulations and Supervision in the PRC – Principal Regulators*" and "*Banking Regulations and Supervision in the PRC – Regulation of Principal Commercial Banking Activities – Wealth Management and Investment*". If the regulatory authorities in China impose further restriction on wealth management business of commercial banks, the Bank's business, financial conditions, results of operation and prospects may be adversely affected.

The Bank's investment assets may suffer significant losses or experience sharp declines in their returns, which could have a material adverse effect on the Bank's business, financial conditions and results of operations.

Apart from its businesses of taking deposits, providing loans, granting credit and providing financial services, the Bank also engages in a range of investment activities, such as investments in investment products under trust schemes, investment products managed by securities companies, wealth management products issued by other PRC commercial banks and other debt securities issued by financial institutions. The Bank's returns on investment securities and other financial assets, and its profitability, may be materially and adversely affected by interest rates, foreign exchange rates, credit and liquidity conditions, asset values and macroeconomic and geopolitical conditions. Any significant deterioration in one or more of these factors could reduce the value of, and the gains generated from, the Bank's investment securities and other financial assets portfolio and could have a material adverse effect on its business, financial conditions and results of operations. As the derivatives market in China is not as mature as that in some developed countries, there are limited risk management tools available to the Bank to reduce market risks relating to its investment portfolio.

If any of the issuers of investment securities or other financial assets or guarantors goes bankrupt, has poor operating performance, or becomes unable to service their debts for any other reasons, or if any of such investment securities or other financial assets lacks liquidity, or if there are adverse changes in macroeconomic environment and other factors, the value of such investment securities and other financial assets may decrease substantially. As a result, the Bank's asset quality, financial conditions and results of operations may be materially and adversely affected.

The Bank may face difficulties in meeting regulatory requirements relating to capital adequacy.

Starting from 1 January 2013, the Bank is required by the PRC Commercial Banking Law and Administrative Measures on the Capital of Commercial Banks (Provisional) and Notice of the CBRC on Issues concerning Transitional Arrangements for the Implementation of the Administrative Measures on the Capital of Commercial Banks (Provisional) (Yin Jian Fa [2012] No.57)(中國銀監會關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知)(銀監發 (2012) 57號) to maintain a minimum core tier 1 capital adequacy ratio of 5.5 per cent., a minimum tier 1 capital adequacy ratio of 6.5 per cent. and a minimum capital adequacy ratio of 8.5 per cent. The Bank is also required to maintain a minimum core tier 1 capital adequacy ratio of 7.5 per cent., a minimum tier 1 capital adequacy ratio of 8.5 per cent. and a minimum capital adequacy ratio of 10.5 per cent. as of the end of 2018. As of 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's core tier 1 capital adequacy ratio was 10.69 per cent, 9.83 per cent., 9.66 per cent. and 9.55 per cent., respectively, and its capital adequacy ratio was 14.33 per cent., 13.00 per cent., 13.84 per cent. and 13.24 per cent., respectively. These capital adequacy ratios were in compliance with the applicable PRC requirements of capital adequacy ratio of non-systemically important commercial banks in the transitional period. Although the Bank's capital adequacy ratios were in compliance with the applicable PRC requirements as of 30 June 2020, certain developments could affect its ability to satisfy applicable capital adequacy requirements in the future, including:

- an increase in the Bank's risk-weighted assets as a result of the rapid expansion;
- an increase in the minimum capital adequacy requirements by the banking regulators, including the increase resulting from Basel III;
- changes in the CBIRC rules or guidelines regarding the calculation of the capital adequacy ratios of commercial banks;
- losses resulting from a deterioration in the Bank's asset quality;
- a decline in the value of the Bank's investments resulting in the decline of its capital base; and
- a decline in the Bank's net profits and thus decreases in its retained earnings.

There is no assurance that the Bank will be able to continuously meet the capital adequacy requirements that the PRC regulators may impose from time to time. The CBIRC is expected to adopt further regulations to tighten the requirements relating to core tier 1 capital, which could have a material adverse effect on the Bank's core tier 1 capital adequacy ratio and its ability to acquire debt or other financing.

The Bank successfully launched its initial public offering on the Shanghai Stock Exchange in November 2016 and may also be required to raise supplementary capital in the future by issuing ordinary shares, preference shares, subordinated bonds and other capital instruments in order to maintain its capital adequacy ratios above the minimum required level. The issuance of the above capital instruments may be subject to certain factors and constraint. For example, the issue of further ordinary shares may dilute the interests of the Bank's existing shareholders and adversely affect the voting rights of shareholders on the resolutions regarding the issuance of relevant capital instruments. Furthermore, the supplementary of the Bank's capital through the issuance of preference shares and subordinated bonds is subject to the regulatory requirements of capital instruments of regulatory authorities. In addition, the Bank's ability to raise additional capital may be limited by numerous factors, including:

- its future business, financial condition, results of operations and cash flows;
- any government regulatory approvals;
- its credit rating;
- general market conditions for capital-raising activities, in particular by commercial banks and other financial institutions; and

• economic, political and other conditions in and outside of China.

The Bank may require additional capital in the future if any of such factors materialises. There is no assurance that the Bank will be able to obtain such capital on commercially reasonable terms in a timely manner, or at all. Furthermore, the CBIRC may further increase the minimum capital adequacy requirements or change the methodology for calculating regulatory capital or capital adequacy ratios. The Bank may otherwise be subject to new capital adequacy requirements. If the Bank fails to meet the applicable capital adequacy requirements, the CBIRC may take corrective actions, including restricting the growth of the Bank's loans and other assets, restricting its ability to issue subordinated debt, declining to approve a new service the Bank has developed or restricting its declaration or distribution of dividends. These measures could materially and adversely affect the Bank's reputation, financial conditions and results of operations.

Moreover, the Bank is required to comply with other regulatory requirements of the CBIRC, such as the liquidity risk regulatory indexes imposed by the Measures for the Liquidity Risk Management of Commercial Banks (the CBIRC Decree No.3 for 2018 (商業銀行流動性風險管理辦法)(中國銀保監會令2018年第3號), which cover liquidity ratio and liquidity coverage ratio, and other liquidity risk monitoring reference indexes, for example, the core liability ratio. In addition, the Bank is required to comply with any regulatory requirements which will be enforced in the future, such as the loan loss provision ratio it will be required to maintain pursuant to the Administrative Measures for the Loan Loss Reserves of Commercial Banks (商業銀行貸款損失準備管理辦法). If the Bank fails to comply with the relevant regulatory requirements, the regulator may reprimand it, issue risk warnings or take corresponding regulatory measures according to the specific non-compliance incident and the information gathered through its routine supervision, which may adversely affect the Bank's business, financial conditions, results of operations and prospects.

The Bank may not be able to detect and prevent fraud or other misconduct committed by its employees, customers or other third parties and it may be subject to other operational risks.

The Bank has continuously refined its operation risk management system and enhanced its internal control. However, fraud and other misconduct by its employees, customers or other third parties may be difficult to detect and prevent and could subject the Bank to financial losses and regulatory measures and administrative penalties imposed by regulatory authorities as well as seriously harm the Bank's reputation.

Types of possible misconduct by the Bank's customers and other third parties include but not limited to fraud, embezzlement, theft and robbery. Further, the types and incidents of fraud and other misconducts by its employees, customers or other third parties may go beyond those detected in the past. In addition, the Bank's employees may commit errors or take improper actions that could subject it to financial claims as well as regulatory actions. As of 30 June 2020, the Bank had a total of 12,471 employees. There is no assurance that all of the Bank's employees will comply with its risk management and internal control policies and procedures. Any failure to detect or prevent employees' and third-parties' fraud or other misconduct, and ineffective precautions the Bank takes, may subject the Bank to fraud or other misconduct that will have a material adverse effect on the Bank's reputation, results of operations and business prospects.

Competition from the internet finance industry may impact the Bank's deposit and loan businesses and could materially and adversely affect the Bank's business, financial conditions and prospects.

With the development of the internet finance industry, funds and internet wealth management products have developed quickly. This trend indicates that a large amount of savings deposits may flow out of banks and then return to the banks in the form like inter-bank deposits. As a result, banks may be subjected to increased funding costs and narrowed interest margins, and as a result, reduced profitability. With the further development of the internet, many non-banking financial institutions have begun to engage in sales agency services through internet platforms, which has significantly affected the agency fee income of banks. The competition from the internet finance industry may materially and adversely affect the Bank's business, financial conditions, results of operations and prospects.

The Bank's business is highly dependent on the proper functioning and continued improvement of its information technology systems.

The Bank depends on its information technology systems to process its transactions on an accurate and timely basis, and to store and process its business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, is critical to its business and ability to compete effectively. The proper functioning of its information technology systems depends on accurate and reliable data input and other sub-system installation, which are subject to human errors. Any failure or delay in recording or processing the Bank's transaction data could subject it to claims for losses and regulatory fines and penalties.

In particular, the secure transmission of confidential information is critical to the Bank's operations. The Bank's networks and systems may be vulnerable to unauthorised access and other security problems. The Bank has taken security protective measures on information technology, including firewall, encryption, intrusion detection and centralised authentication. However, these existing security measures may not prevent unforeseeable security breaches, including break-ins and viruses, or other disruptions such as those caused by defects in hardware or software and errors or misconduct of operators. Persons that circumvent such security measures could use the Bank's or its clients' confidential information wrongfully. Any material security breach or other disruptions could expose the Bank to risk of loss and regulatory actions and may harm its reputation.

The Bank's competitiveness will also to some extent depend on its ability to upgrade its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by the Bank through its existing information technology systems may not be timely or sufficient for it to manage risks and prepare for, and respond to, market changes and other developments in the Bank's current operating environment. Any failure to improve or upgrade its information technology systems effectively or on a timely basis could materially and adversely affect the Bank's competitiveness, results of operations and financial conditions.

Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in China, including the recent COVID-19 pandemic, may have a material adverse effect on the Bank's business operations, financial conditions and results of operations.

Any future force majeure events, such as occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, may materially and adversely affect the Bank's business and results of operations. An outbreak of a health epidemic or contagious disease, including the recent outbreak of COVID-19 across China and around the world, could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business. In particular, the outbreak of respiratory illness caused by COVID-19 has continued to transpire. Stringent measures, including mandatory quarantines and travel restrictions, were 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 manufacturing, wholesale and retail sector, which may in turn heighten some of the Bank's customers' credit risks and affect the value of collaterals securing the Bank's loans. The Bank's 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 the Bank's customers (especially micro and small enterprises), or other factors that are unforeseeable.

Moreover, China has experienced natural disasters like earthquakes, floods and droughts in the past few years. For example, in May 2008 and April 2010, China experienced earthquakes with reported magnitudes of 8.0 and 7.1 on the Richter scale in Sichuan Province and Qinghai Province, respectively, resulting in the death of tens of thousands of people. In 2010, there were severe droughts and floods in various parts of China, resulting in significant economic losses in these areas. Any future occurrence of severe natural disasters or outbreaks of epidemics in China and in the world may adversely affect its economy and in turn the Bank's business, particularly in light of the substantial portion of the Bank's county area banking business which is more vulnerable to natural disasters. There is no guarantee that any future occurrence of natural disasters or outbreaks of contagious diseases, or the response measures taken by the PRC government or other countries, will not seriously interrupt the Bank's operations or those of its customers, which may have a material and adverse effect on the Bank's results of operations.

The Bank is subject to various PRC regulatory requirements, and failure to fully comply with such requirements could materially and adversely affect its business, reputation, financial conditions and results of operations.

The Bank is subject to the regulatory requirements and guidelines set forth by the PRC regulatory authorities. The PRC regulatory authorities include, without limitation, the PBOC and its agencies, CBIRC, MOF, CSRC, SAT, NAO, SAMR, SAFE and their respective local bureaus and offices, especially in Shanghai and regions that its branches are located. These regulatory authorities carry out periodic or ad hoc supervision, inspection, spot checks and inquiries of the Bank's compliance with applicable laws, regulations and guidelines. These regulatory authorities are entitled to impose, according to laws and regulations, regulatory measures or administrative penalties based on the results of supervision, inspection, spot checks and inquiries.

On occasion the Bank has failed to meet certain requirements and guidelines set by the PRC regulatory authorities, or it was found to have violated certain regulations, such as failure to report or report accurately certain information required to be reported to the PBOC and failure to obtain authorisation before acquiring personal credit report. In addition, the Bank has in the past been subject to fines and other penalties for cases of non-compliance. There is no assurance that it will be able to meet all the applicable regulatory requirements and guidelines, or comply with all the applicable laws and regulations at all times, or that it will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed for failing to comply with applicable requirements, guidelines or regulations, the Bank's business, reputation, financial conditions and results of operations may be materially and adversely affected.

The Bank may not be able to detect money-laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and harm its business or reputation.

The Bank is required to comply with applicable anti-money-laundering and anti-terrorism laws and other regulations in the PRC. These laws and regulations require it, among other things, to adopt and enforce "know-your-customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. The Bank has in the past been subject to administrative fines and penalties imposed by regulatory agencies in the PRC for, among other things, incidences of non-compliance with the PRC anti-money-laundering rules, including, for example, failure to register the identification of customers and keep the copy of identification certificate of customers. While the Bank has adopted policies and procedures aimed at detecting and preventing the use of its banking networks for money-laundering activities and by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where it may be used by other parties to engage in money-laundering and other illegal or improper activities due to, in part, the short history of these policies and procedures, and the complexity and covert nature of money-laundering and other illegal or improper activities. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom it reports have the power and authority to impose fines and other penalties. In addition, the Bank's business and reputation could suffer if customers use its bank for money-laundering or other illegal or improper purposes.

The Bank may be involved in legal and other disputes from time to time arising from its operations and may face potential liabilities as a result.

The Bank from time to time may become involved in legal and other disputes for a variety of reasons, which most often arises as it seeks to recover outstanding amounts from its borrowers. The majority of these cases arise in the ordinary course of the Bank's business. Where the Bank assesses that there is a probable risk of loss, it is the Bank's policy to make provisions for the loss. The Bank has enhanced its legal risk management in its normal course of business and fully taken account into effects of pending legal proceedings and other disputes on the recovery of borrowings in calculating provisions of contingent liabilities. However, there is no assurance that the judgments in any of the litigation in which the Bank is involved would be favourable. In addition, if the Bank's assessment of the risk changes, its view on provisions will also change. The Bank expects that it will continue to be involved in various legal and other disputes in the future, which may subject it to additional risks and losses. These disputes may relate to, among others, the amount of the unpaid obligations of the relevant borrowers, the terms for such borrowers to perform their obligations and the application of statute of limitations. In addition, the Bank may have to advance legal costs associated with such disputes, including fees relating to appraisal, notarisation, auction, execution and counsel's legal services. These and other disputes may lead to legal, administrative or other proceedings and may result in damage to the Bank's reputation, additional operational costs and a diversion of resources and management's attention from the core business operations. There is no assurance that the outcome of future or current disputes or proceedings will not materially and adversely affect the Bank's business, reputation, financial conditions and results of operations.

The Bank could suffer losses as a result of the actions of or deterioration in the financial soundness of its counterparties.

The Bank's ability to engage in routine trading and financial transactions in its treasury operations could be adversely affected by the actions and financial soundness of its counterparts in these transactions. The Bank has exposure to counterparties from many different industries, and it routinely executes transactions with counterparties in the financial services industry. If the Bank's counterparties refuse to, or do not properly, perform their obligations pursuant to their contracts with the Bank or if the financial conditions of the Bank's counterparties deteriorate which prevent them from fulfilling their obligations under their contracts with the Bank, the Bank may not obtain the benefits of the transactions with these counterparties and may suffer losses as a result. In particular, the Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and it currently has foreign currency forward and swap arrangements and interest rate swap arrangements with a number of domestic and international banks, other financial institutions and entities. The Bank established a stricter counterparty selection mechanism and adopted name-list based management system, interbank credit and limit management and other measures. In addition, central counterparty clearing mechanism has been established in China, and Shanghai Clearing House carries out net amount clearing as a central counterparty. Shanghai Clearing House has implemented central counterparty net amount clearing for interest rate swap and the central counterparty net amount clearing system will include foreign currency spot transaction, forward contracts, swap and other foreign currency exchange transactions. While it is believed that the overall credit quality of the Bank's counterparties is satisfactory, there is no assurance that such counterparties with significant exposures to risks will not face any difficulty in paying the amounts on derivative contracts when due, which may result in financial losses to the Bank.

The Bank's plan to further expand its business outside of Shanghai may not be approved or may be unsuccessful.

In recent years, the Bank has taken various measures to expand its operations outside of Shanghai. As of 30 June 2020, the Bank had set up branches in Ningbo, Nanjing, Hangzhou, Tianjin, Chengdu, Shenzhen, Beijing and Suzhou. The Bank will continue to expand its business beyond Shanghai based on the development plan. Geographic expansion exposes the Bank to a number of risks and there is no assurance that its plan to expand outside of Shanghai and the existing locations will be successful. In order to further expand geographically, the Bank needs to satisfy various requirements imposed by the CBIRC, such as obtaining regulatory rating above a certain level, having total assets no less than a minimum required amount, having sufficient working capital, maintaining profitability in the last three years and satisfying other financial indicators. The Bank may not be able to meet the regulatory requirements for regulatory approvals. Even if approval is granted, the Bank may not obtain qualified personnel with knowledge about the local commercial environment so as to enable it to successfully compete with the existing commercial banks and other financial institutions in these areas or regions. If the Bank is unable to expand its branches outside Shanghai, its growth rate and business expansion may be limited and, its business, financial conditions and results of operations may be materially and adversely affected.

The Bank may not be able to retain its senior management and recruit or retain a sufficient number of qualified staff.

The Bank's ability to sustain growth and meet future business demands is dependent upon the continued services of its senior management. The Bank's senior management has on average approximately 20 years of experience in the banking industry. It also relies on the continued service and performance of its employees for most aspects of its business. The departure of any member of the Bank's senior management team or professional staff may have an adverse effect on its business and results of operations.

Due to rapid expansion, the Bank's organisational changes, and other reform initiatives, the Bank is in need of talented employees and has devoted considerable resources to recruitment and professional training. However, it faces increasing competition in recruiting and retaining qualified personnel as other banks are competing for the same pool of qualified personnel and the Bank's compensation package may not be as competitive as its competitors. In addition, the Bank's employees may resign at any time and may seek to divert customer relationships that they have developed to an outside bank. The Bank may not be able to recruit staff in sufficient numbers or with sufficient experience, and the competition in recruitment may lead to significant increase in its employment costs. Should it fail to recruit or retain a sufficient number of qualified staff, the Bank's business and financial conditions could be adversely affected.

The Bank has published and may continue to publish periodic financial information in the PRC in Chinese pursuant to applicable PRC regulatory rules. Investors should be cautious and not place any reliance on financial information other than that disclosed in this Offering Circular.

The Bank is listed on the Shanghai Stock Exchange. According to applicable PRC securities regulations, the Bank is required to publish its periodic financial information in Chinese to satisfy its continuing disclosure obligations to its shareholders. The interim financial information published by the Bank in the PRC is normally derived from its management accounts and is not audited or reviewed by independent auditors. Certain historical financials that are not included in this Offering Circular may not be directly comparable to the financials contained herein. As such, financial information published in the PRC by the Bank may not provide potential purchasers with the same quality of information associated with any audited information.

RISKS RELATING TO THE BANKING INDUSTRY IN CHINA

The Bank faces intense competition in China's banking industry as well as competition from alternative corporate financing and investment channels.

The Bank faces competition from other commercial banks and financial institutions in all of its principal areas of business. It competes primarily with other Large Commercial Banks, Joint-stock Commercial Banks, City Commercial Banks and foreign banks in China.

Additionally, following the removal of regulatory restrictions on their geographical presence, customer base and operating license in China in December 2006 as part of China's WTO accession commitments, the Bank has experienced increased competition from foreign-invested commercial banks. Furthermore, the Mainland and Hong Kong Closer Economic Partnership Arrangement the Mainland and Macau Closer Economic Partnership Arrangement and the Cross-Straits Economic Co-operation Framework Agreement which permit Hong Kong, Macau and Taiwan banks to operate in China, have also increased competition in China's banking industry.

Moreover, the PRC government has, in recent years, implemented a series of measures designed to further liberalise the banking industry, including, among others, with respect to interest rates and non-interest-based products and services, which are changing the basis on which the Bank competes with other banks for customers.

The Bank competes with many of its competitors for substantially the same loan, deposit and fee-based business customers. Such competition may adversely affect the Bank's business and future prospects by, for example:

- reducing its market share in its principal products and services;
- slowing down the growth of its loan or deposit portfolios and other products and services;
- decreasing its interest income or increasing its interest expenses, thereby reducing its net interest income;
- reducing its fee and commission income;
- increasing its non-interest expenses, such as marketing expenses;
- adversely affecting its asset quality; and
- increasing competition for senior management and qualified professional personnel.

The Bank may also face competition from direct corporate financing, such as the issuance of securities in the domestic and international capital markets. The domestic securities markets have experienced, and are expected to continue to experience, expansion and growth. If a substantial number of its customers choose alternative financing to fund their capital needs, the Bank's business, financial conditions and results of operations may be adversely affected.

Moreover, the Bank may face competition from other forms of investment alternatives as the PRC capital markets continue to develop. As the PRC equity and bond markets continue to develop and become more viable and attractive investment alternatives, the Bank's deposit customers may elect to transfer their funds into equity and bond investments, which may reduce its deposit base and adversely affect its business, financial conditions and results of operations.

The Bank's business and operations are highly regulated, and its business, financial conditions, results of operations and future prospects may be materially and adversely affected by regulatory changes or other governmental policies, including their interpretation and application.

The Bank's business and operations are directly affected by changes in China's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which it can engage in specific businesses, as well as changes in other governmental policies. Since its establishment as the primary banking industry regulator assuming the majority of the bank regulatory functions from the PBOC in 2003, the CBIRC has promulgated a series of banking regulations and guidelines. The banking regulatory regime in China is currently undergoing significant changes, most of which are applicable to the Bank and may result in additional costs or restrictions on its activities. For instance, in March 2011, the CBIRC, the PBOC and the NDRC jointly issued a notice stipulating the cancellation of 34 service fees classified under 11 categories of domestic commercial banks effective from 1 July 2011. In February 2014, the NDRC and the CBRC jointly issued the Measures for the Administration of the Service Prices of Commercial Banks (the "**Measure**"). According to the Measure, the prices of basic banking services that are widely used by clients and have significant influence on China's economic development shall be subject to the guidance or determination of the government. The NDRC and the CBIRC also jointly issued the Circular on Printing and Distributing the Catalogue of Government-guided and Government-determined Prices for Services Provided by Commercial Banks (the "**Catalogue**"). According to the Catalogue, the prices of the basic financial services provided by commercial banks for bank clients shall be subject to the government guided-prices and government pricing. Such basic financial services include part of commercial banks' service items, such as wire transfer, remittance by cash, encashment and bills, and specific charge items and charging standards shall be subject to the Catalogue. On 1 November 2016, the CBRC issued the Banking Institutions Overall Risk Management Guidelines (the "**Guidelines**"), which aimed to enhance overall risk management level of PRC commercial banks.

There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial conditions and results of operations nor can the Bank give any assurance that it will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations. Failure to comply with the applicable policies, laws and regulations may result in fines and restrictions on the Bank's activities, which could also have a significant impact on its business, financial conditions and results of operations.

The Bank is subject to changes in interest rate and other market risks, and the Bank's ability to hedge market risks is limited.

Similar to other commercial banks, a majority of the Bank's operating income is interest income derived from granting of loans and advances to its customers. For the year ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, the Bank's net interest income represented 57.7 per cent., 68.2 per cent., 60.9 per cent., 56.8 per cent. and 67.1 per cent., respectively, of its operating income. Interest rates of bank loans historically were highly regulated in China. In recent years, PRC government has published a number of policies with an aim to increase the liberalisation of its monetary policies and the interest rates of bank loans of commercial banks. Under existing PBOC regulations, commercial banks in China cannot set interest rates above 150 per cent. of the relevant PBOC benchmark rate for Renminbi-denominated deposits. There used to be restriction with respect to the lower limit of the interest rates for Renminbi-denominated deposits. However, the PBOC promulgated the Notice on Further Promoting the Market-oriented Reform of Interest Rates on 19 July 2013, eliminating such restriction on Renminbi-denominated loans, except for home mortgage loans. On 24 October 2015, PBOC announced that it would no longer set a floating ceiling deposit interest rate for commercial banks, signifying the further liberalization of controls on interest rates. In August 2019, the PBOC announced to reform the mechanism used to establish the loan prime rate ("**LPR**"). The new LPR quotations will be published on a monthly basis based on rates of open market operations, primarily the PBOC's medium-term lending facility. 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.

Furthermore, as a crucial step for liberalizing interest rates in China, the Deposit Insurance Regulation was published on 17 February 2015 and came into effect on 1 May 2015. Under the Deposit Insurance Regulation, deposit insurance is subject to a certain reimbursement limit, with the maximum reimbursement limit set at RMB500,000. Where a depositor's total principal and interest in all insured deposit accounts at the same insured institution, calculated on a consolidated basis, is within the maximum reimbursement limit, such total amount will be reimbursed in full. Banks are required to pay premiums for the deposit insurance program, which may increase its operating costs and adversely affect its financial condition and results of operations.

As a result of the gradual liberation of interest rates, commercial banks will have to make forecasts and judgements of interest rate fluctuation with higher precision. There can be no assurance that the Bank will be able to promptly adjust the composition of its asset and liability portfolios and its pricing mechanism to effectively respond to further liberalization of interest rates. In addition, 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 the Bank's results of operations.

Any adjustments by the PBOC in the benchmark interest rates on loans or deposits may adversely affect the Bank's financial condition and results of operations in different ways. For example, changes in the PBOC benchmark interest rates could affect the average yield on the Bank's interest-earning assets differently from the average cost on its interest-bearing liabilities and therefore may narrow its net interest margin and reduce its net interest income, which may materially and adversely affect its financial condition and results of operations. An increase in interest rates may result in increases in the finance costs of the Bank's customers and thus reduce overall demand for loans, and, accordingly, adversely affect the growth of the Bank's loan portfolio, as well as increase the risk of customer default. In a rising interest rate environment, the Bank's ability to adjust upwards the interest rates that it receives on its interest-bearing assets, mainly loans, may be limited, whether due to competition or other factors as the Bank's customers may repay existing loans prior to their maturity through other refinancing that may bear lower rates of interest. How the Bank manages interest rate volatility generally will determine, to a certain extent, the impact of such volatility on the Bank's net interest and dividend income, and there is no assurance that the Bank will be able to manage such volatility in a manner that does not adversely affect its business, financial conditions and results of operations.

The Bank also undertakes trading and investment activities involving certain financial instruments both in China and abroad. The Bank's income from these activities is subject to volatilities caused by, among other things, changes in interest rates and foreign currency exchange rates. For example, increases in interest rates generally have an adverse effect on the value of the Bank's fixed rate securities portfolio, which may materially and adversely affect its financial condition and results of operations. Furthermore, as the derivatives market has yet to mature in China, there are limited risk management tools available to enable the Bank to reduce market risks.

PRC regulations impose certain limitations on the product categories in which the Bank may invest and, as a result, its ability to seek higher investment returns, diversify its investment portfolio or hedge against the risks relating to its RMB-denominated assets is limited.

As a result of the current PRC regulatory restrictions, most of the Bank's RMB-denominated investment assets are concentrated in a limited variety of investments permitted for PRC commercial banks, such as debt securities issued by the MOF, the PBOC, PRC policy banks and PRC commercial banks, commercial papers issued by qualified domestic institutions, medium-term notes, domestic corporate bonds and asset management plans. As a result, the investment assets of PRC commercial banks have demonstrated a relatively high level of correlation such that a decline in the value of some assets is often accompanied by corresponding decreases in the value of other assets. Restrictions on the Bank's ability to diversify its investment portfolio limit the Bank's ability to seek an optimal rate of return and to manage its liquidity. Moreover, its ability to hedge against the risks relating to the Bank's RMB-denominated investment assets is limited due to restrictions under applicable PRC laws and regulations regarding RMB-denominated hedging instruments. If the value of its RMB-denominated assets significantly drops within a short period of time, the Bank's financial conditions and results of operations could be materially and adversely affected.

The Bank is subject to PRC government controls on currency conversion and risks relating to fluctuations in exchange rates.

The Bank receives a substantial majority of its revenues in Renminbi, which is currently not a freely convertible currency. A portion of these revenues must be converted into other currencies in order to meet the Bank's foreign currency obligations.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China's and international political and economic conditions and the PRC government's fiscal and currency policies. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in the decrease in the value of the Bank's foreign currency-denominated assets. As of 30 June 2020, 6.1 per cent. of the Bank's financial assets and 11.2 per cent. of its financial liabilities were denominated in foreign currencies. The Bank recorded a net foreign exchange loss of RMB147 million for the six months ended 30 June 2020. Although the Bank seeks to reduce its exchange rate risk through currency derivatives, there can be no assurance that it will be able to reduce its foreign currency risk exposure relating to its foreign currency-dominated assets. In addition, there are limited instruments available to the Bank to reduce its foreign currency risk exposure at reasonable costs. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may materially and adversely affect the financial conditions of certain of the Bank's customers, particularly those deriving substantial income from exporting products or engaging in related businesses, and in turn affect their abilities to service their obligations to the Bank. Furthermore, the Bank is also currently required to obtain SAFE approval before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect the Bank's financial conditions, results of operations and compliance with capital adequacy ratios and operational ratios.

The growth rate of China's banking industry may not be sustainable.

The Bank expects the banking industry in China to continue to grow as a result of anticipated growth in China's economy, increases in household income, further social welfare reforms, demographic changes and the opening of China's banking industry to foreign participants. However, it is not clear how certain trends and events, such as the pace of China's economic growth, China's implementation of its commitment to WTO accession, the development of the domestic capital and insurance markets and the ongoing reform of the social welfare system will affect China's banking industry. In addition, there can be no assurance that the banking industry in China is free from systemic risks. Consequently, there can be no assurance that the growth and development of China's banking industry will be sustainable.

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

The information infrastructure in China is relatively undeveloped. PRC national individual and corporate credit information databases developed by the PBOC commenced operation in 2006.

However, due to their relatively short operating history, they can only provide limited information. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. Until these nationwide credit information databases become more fully developed, the Bank has to rely on other publicly available resources and its internal resources, which are not as extensive nor as effective as a unified nationwide credit information system. As a result, the Bank's ability to effectively manage its credit risk and in turn, its asset quality, financial condition and results of operations may be materially and adversely affected.

There can be no assurance of the accuracy or comparability of facts, forecasts and statistics contained in this Offering Circular with respect to China, its national or county area economies or its banking industry.

Facts, forecasts and statistics in this Offering Circular relating to China, its national or county area economies and financial conditions and its banking industry are derived from various sources which are generally believed to be reliable.

However, the Bank cannot guarantee the quality and reliability of such sources. In addition, these facts, forecasts and statistics have not been independently verified by the Bank and may not be consistent with the information available from other sources, and may not be complete or up to date. The Bank has taken reasonable caution in reproducing or extracting the information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics of other economies.

RISKS RELATING TO THE PRC

The PRC legal system has inherent uncertainties that would affect the Bank's business and results of operations as well as the interest of investors in the Bonds.

A substantial and growing share of the Bank's business is conducted, and assets are located, in the PRC, and its operations are generally affected by and subject to the PRC legal system and PRC laws and regulations.

Since 1979, the PRC government has promulgated laws and regulations in relation to general economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. In particular, legislation over the past 35 years has significantly enhanced the protections afforded to various forms of foreign investment in the PRC. The legal system in the PRC is continuing to evolve. Even where adequate laws exist in the PRC, the enforcement of existing laws or contracts based on existing laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, the PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited as reference but have limited weight as precedents.

The PRC has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. The relative inexperience of the PRC's judiciary in many cases also creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Furthermore, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation, implementation and enforcement of these laws and regulations involve uncertainties due to the lack of established practice available for reference. For example, on 14 September 2015, the NDRC promulgated the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (NDRC Waizi [2015] No. 2044 (《國家發改委關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號))(“**Circular 2044**”). According to Circular 2044, if a PRC enterprise or an offshore enterprise or branch controlled by such PRC enterprise wishes to issue debt securities outside of the PRC with a maturity of more than one year, such enterprise must, in advance of issuing such debt securities, file certain prescribed documents with the NDRC and procure a registration certificate from the NDRC in respect of such issue (the “**Pre-issuance Registrations**”). The enterprise must also report certain details of the debt securities to the

NDRC within the prescribed timeframe after the completion of the note issue (the "**Post-issuance Notification**"). It is still uncertain how the NDRC will interpret, implement and enforce Circular 2044. Further, it is unclear whether the system for the acceptance of the post-issuance notification is fully operational. There is a risk that such Post-issuance Notification cannot be completed in time or at all, as a result of such uncertainty. It remains uncertain under Circular 2044 if the validity or enforceability of any Bonds will be affected or will the Bank be subject to any penalty if it fails to complete the Post-issuance Notification within the required timeframe or if the registration certificate obtained for Pre-issuance Registration is revoked in the future.

The Bank cannot predict the effect of future legal development in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the inconsistencies between local rules and regulations and national law. As a result, there is substantial uncertainty as to the legal protection available to the Bank and investors in the Bonds. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have retroactive effect. As a result, the Bank may not be aware of its violation of these policies and rules until sometime after the violation has occurred. This may also limit the remedies available to investors and to the Bank in the event of any claims or disputes with third parties. Any litigation in the PRC may be protracted and result in substantial costs and diversion of the Bank's resources and management attention.

PRC economic, political and social conditions, as well as government policies, could affect the Bank's results of operation, financial conditions and prospects.

The PRC economy differs from that of developed countries in many aspects, including government involvement, level of development, growth rate, foreign exchange control and allocation of resources.

Although the PRC's economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in China is still owned by the PRC government. The PRC government also exercises significant control over China's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. Although the PRC government has implemented economic reform measures to introduce market forces and establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country and there can be no assurance that the Bank can benefit from certain of such measures.

The PRC has been one of the fastest-growing economies in the world, as measured by GDP growth. However, the PRC has also displayed signs of slowdown as evidenced by a decrease in the growth rate of its GDP in recent years. On 2 March 2016, Moody's Investors Service ("**Moody's**") changed its outlook on China's Aa3 government bond rating from stable to negative, citing uncertainty about the PRC government's capacity to implement reforms to address imbalances in the economy, given the scale of reform challenges. On 31 March 2016, Standard & Poor's also changed its outlook on China's AA- government bond rating from stable to negative, stating that China's attempts to overhaul its economy towards domestic-led economic growth were proceeding "more slowly than Standard & Poor's had expected". On 24 May 2017, Moody's downgraded China's long-term local currency and foreign currency issuer ratings from Aa3 to A1 and changed the outlook from negative to stable. In September 2017, S&P Global Ratings also downgraded China's long-term sovereign credit rating to A+ from AA-. In 2019, the annual growth rate of China's GDP dropped down to 6.1 per cent. on a year-on-year basis, which is the slowest pace in the nation's history since 1990. For the first quarter of 2020, China's GDP contracted by 6.8 per cent. as a result of outbreak of COVID-19 pandemic and large-scale quarantine and shutdown measures implemented by the PRC government. The outlook for the PRC's economy and financial markets remains uncertain, which may have a negative impact on the Bank's business, financial conditions and results of operations.

Further, China's economic growth may also slow down due to weakened exports as a result of tariffs and trade tensions caused by the U.S.-China trade war. In 2018 and 2019, the U.S. government imposed several rounds of tariffs on cumulatively US$550 billion worth of Chinese products. In retaliation, the Chinese government responded with tariffs on cumulatively US$185 billion worth of U.S. products. In addition, in 2019, the U.S. government restricted certain Chinese technology firms from exporting certain sensitive U.S. goods. The Chinese government lodged a complaint in the World Trade Organization against the U.S. over the import tariffs in the same year. The trade war created substantial uncertainties and volatilities to the PRC export trading business. On 15 January 2020, the U.S. and Chinese governments signed the U.S.-China Economic and Trade Agreement (the "**Phase I Agreement**"). Under the Phase I Agreement, the U.S. agreed to cancel a portion of tariffs imposed on Chinese products, China promised additional purchases of U.S. goods and services, and both parties expressed a commitment to further improving various trade issues. Despite this reprieve, however, it remains to be seen whether the Phase I Agreement will be abided by both governments and successfully reduce trade tensions, in particular with respect to the recent pandemic-triggered disagreement among China and the U.S. If either government violates the Phase I Agreement, it is likely that enforcement actions will be taken and trade tensions will escalate. Furthermore, additional concessions are needed to reach a comprehensive resolution of the trade war. The roadmap to the comprehensive resolution remains unclear, and the lasting impact the trade war may have on China's economy and the industries in which the Bank operates remains uncertain.

Any adverse changes in the PRC's political and social conditions, which could potentially be sparked by the recent market volatility attributed to concerns over the foregoing, may cause a further slowdown in the PRC economy, and there can be no assurance that any measures or actions taken by the PRC government with an aim to increasing investors' confidence in the PRC's economy in the PRC will be effective. The slowdown in the PRC's economy may adversely affect the Bank's financial conditions and results of operations in many ways, which in turn may adversely affect the Issuer's ability to service the Bonds.

It may be difficult to effect service of process upon, or to enforce against, the Issuer or the Bank or their respective directors or members of the Issuer's or the Bank's senior management who reside in the PRC in connection with judgments obtained in non-PRC courts.

Most of the Bank's assets and the Bank's members are located in the PRC. In addition, most of the assets of the Bank's directors and the members of their respective senior management may be located within the PRC. Therefore, it may not be possible for investors to effect service of process upon the Issuer, the Bank or their respective directors or members of their respective senior management inside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition of judgments made by courts of most other jurisdictions. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判决的安排) (the "**2006 Arrangement**") which is effective on 1 August 2008, pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a "choice of court" agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final court judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a "choice of court" agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A "choice of court" agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a Hong Kong court or a PRC court is expressly designated 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 do not enter into a "choice of court" agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against the Issuer's or the Bank's assets or directors in the PRC in order to seek recognition and enforcement for foreign judgments in the PRC.

On 18 January 2019, the PRC Supreme Court and the Department of Justice of Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments on Civil and Commercial Matters by the Courts of the Mainland and the Hong Kong Special Administrative Region (the "**2019 Arrangement**"). The PRC Supreme Court and Hong Kong government will announce the effective date of the 2019 Arrangement after promulgation of judicial interpretation by the PRC Supreme Court and the completion of relevant procedures by Hong Kong government. The 2019 Arrangement will apply to any judgment made on or after its effective date by the courts in the PRC and Hong Kong. The 2006 Arrangement will be terminated on the same day when the 2019 Arrangement comes into effect. However, if a written "choice of court" agreement was entered into in accordance with 2006 Arrangement prior to the effective date of the 2019 Arrangement, the 2006 Arrangement shall still apply. The effective date of the 2019 Arrangement has not been announced as of the date of this Offering Circular. Therefore, the outcome of and the effectiveness of judgment recognition and enforcement under the 2019 Arrangement remain uncertain.

Furthermore, the PRC does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of the United States, the United Kingdom, most other European countries or Japan. Hence, the recognition and enforcement in the PRC of a judgment of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

The PRC government's value-added tax ("VAT") reforms which replaced business tax ("BT") with VAT may subject the Bank to more taxes, which could adversely affect the Bank's business and future results of operations.

From 1 January 2012, the MOF and the SAT embarked upon a series of VAT reforms to replace BT with VAT for service industries progressively. On 23 March 2016, the MOF and the SAT promulgated the Circular on Comprehensively Promoting the Pilot Programme of the Collection of Value-Added Tax to Replace Business Tax ("**Circular 36**"). Pursuant to Circular 36, starting from 1 May 2016, VAT has been applied to the construction industry, the real estate industry, the finance industry and the life service industry on a nationwide basis at the rate of 6 per cent. or other applicable rates, replacing BT which was applied at the rate of 5 per cent. While the rate under VAT is higher than BT, the tax base for each tax is different.

In addition, if the Issuer is treated as a PRC tax resident enterprise and if PRC tax authorities take the view that the holders of the Bonds are providing loans within the PRC and the interest income is viewed as arising within the territory of the PRC, or if the interest component of the amount payable by the LC Bank to the Noteholders under the Standby Letter of Credit is viewed as interest income arising within the territory of the PRC, the holders of the Bonds shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Bonds. In addition, the holders of the Bonds shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.72 per cent.

Where a holder of the Bonds who is an entity or individual located outside of the PRC resells the Bonds to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the Issuer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located within the PRC.

Turmoil in the financial markets could increase the Bank's cost of borrowing and impede access to or increase the cost of financing its operations and investments.

The Bank is significantly influenced by levels of investor confidence. Any factor that may affect market confidence could affect the costs or availability of funding for the Bank. Historically, challenging market conditions have resulted in reduced liquidity, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and a tightening of credit terms. In

2015, the PRC stock markets experienced significant turmoil and disruptions. In 2018, the Shanghai Composite Index went down significantly compared to 2017. Furthermore, on 3 February 2020, the Shanghai Composite Index experienced the biggest daily drop in the past four years, which came after global markets rattled by the pandemic. Significant fluctuations in financial markets could cause substantial adverse effects on the Bank's business operations and investments as a whole.

RISKS RELATING TO THE BONDS, THE STANDBY LETTER OF CREDIT AND THE KEEPWELL DEED

The PRC government has no obligation to pay any amount under the Bonds.

The PRC government is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Bonds. This position has been reinforced by the Circular of the NDRC and the MOF on Improvement of Market Regulatory Regime and Strict Prevention of Foreign Debt Risks and Local Government Indebtedness Risks (Fa Gai Wai Zi [2018] No. 706)(《國家發展改革委財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知》(發改外資[2018]706號))(''**Joint Circular 706**'') promulgated on 11 May 2018, which took effect on the same day.

On 6 June 2019, the NDRC promulgated the Circular on Relevant Requirements for the Record-filing and Registration of Foreign Debts Issued by Local State-owned Enterprises (《關於對地方國有企業發行外債申請備案登記有關要求的通知》)(發改辦外資[2019]666號)(''**Circular 666**''), which emphasises once again that (i) a local state-owned enterprise shall fulfil responsibilities for repayment for foreign debts in the capacity of independent legal person and shall intensify information disclosure; (ii) a local government or its departments shall not directly repay or undertake to repay foreign debts of a local state-owned enterprise with financial capital, or provide guarantee for the issuance of foreign debts by a local state-owned enterprise; and (iii) it is forbidden to mingle any misleading publicity information probably linked to government credit in documents such as this Offering Circular.

As such, the PRC government does not have any payment obligations under the Bonds or the Trust Deed if the Issuer or the Bank fails to meet their respective obligations. The Bonds are solely to be repaid by the Issuer as obligor under the relevant transaction documents and as independent legal persons. Investments in the Bonds are reliant solely on the credit risk of the Issuer and the Bank. In the event the Issuer or the Bank does not fulfil its obligations under the Bonds, investors will only be able to claim as unsecured creditors against the Issuer, the Bank and their respective assets, and not any other person including the PRC government or any other local or municipal government. As the Joint Circular 706 and the Circular 666 are relatively new, and given the limited volume of published decisions related to these circulars, the interpretation and enforcement of these laws and regulations involve uncertainties.

The Bonds are unsecured obligations.

As the Bonds are unsecured obligations of the Issuer, the repayment of the Bonds may be compromised if:

- the Issuer enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's indebtedness.

If any of these events were to occur, the Issuer's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Bonds.

The Bonds may not be a suitable investment for all investors.

The Bonds are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds unless it has the expertise (either alone or with the help of a financial advisor) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Bonds are legal investments for it; (b) the Bonds can be used as collateral for various types of borrowing; and (c) other restrictions apply to its purchase of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;

(iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial advisor) possible economic scenarios such as, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

If the Issuer or the Bank is unable to comply with the restrictions and covenants in their respective debt agreements, or the Bonds, there could be a default under the terms of these agreements, or the Bonds, which could cause repayment of the Issuer's or (as the case may be) the Bank's debt to be accelerated.

If the Issuer or the Bank is unable to comply with the restrictions and covenants in the Bonds, or if the Issuer or the Bank is unable to comply with its current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer or (as the case may be) the Bank, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of the Issuer's or the Bank's debt agreements, including the Bonds, contain cross-acceleration or cross-default provisions. As a result, the default by the Issuer or (as the case may be) the Bank under one debt agreement may cause the acceleration of repayment of debt, including the Bonds, or result in a default under its other debt agreements, including the Bonds. If any of these events occur, there can be no assurance that the Issuer's or (as the case may be) the Bank's assets and cash flows would be sufficient to repay in full all of the Issuer's or (as the case may be) the Bank's indebtedness, or that it would be able to find alternative financing. Even if the Issuer or (as the case may be) the Bank could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Issuer or (as the case may be) the Bank.

The Keepwell Deed is not a guarantee of the payment obligations under the Bonds and may not give rise to a debt claim against the Bank or be recognised by PRC courts in the event of any insolvency proceedings in relation to the Bank in the PRC. In addition, performance by the Company of its obligations under the Keepwell Deed is subject to the approvals of the PRC authorities

The Bank will execute a Keepwell Deed with the Issuer and the Trustee, according to which it will undertake, among other things, to ensure that the Issuer has sufficient liquidity to ensure timely payment of any amounts payable under the Bonds in accordance with their terms of payment as and when due. See "*Description of the Keepwell Deed*" for further information. Pursuant to the terms of the Keepwell Deed, the Trustee may take action against the Bank to enforce the provisions of the Keepwell Deed. However, neither the Keepwell Deed nor any actions taken by the Trustee thereunder can be deemed as a guarantee by the Bank for the payment obligation of the Issuer under the Bonds. Accordingly, the Bank will only be obliged to cause the Issuer to obtain, before the due date of the relevant payment obligations, funds sufficient by means as permitted by applicable laws and regulations so as to enable the Issuer to pay such payment obligations in full as they fall due, rather than assume the payment obligation as in the case of a guarantee. In addition, the holders of the Bonds will be subject to the conditions provided in the Trust Deed for any actions to be taken against the Bank to enforce the Keepwell Deed.

Furthermore, even if the Bank intends to perform its obligations under the Keepwell Deed, depending on the manner in which the Bank performs its obligations under the Keepwell Deed in causing the Issuer to obtain, before the due date of the relevant payment obligations, funds sufficient to meet its obligations under the Bonds, such performance may be subject to obtaining prior consent, approvals, registration and/or filings from relevant PRC governmental authorities, including the NDRC, MOFCOM and SAFE. Although the Bank is required to use all reasonable efforts to obtain any required consents and approvals in order to fulfil its obligations under the Keepwell Deed, there is no assurance that such consents or approvals will be obtained in a timely manner or at all. In the event that the Bank fails to obtain the requisite consents or approvals, the Issuer may have insufficient funds to discharge its outstanding payment obligations to the holders of the Bonds.

Under the Keepwell Deed, the Bank will undertake, among other things, to cause the Issuer to have sufficient liquidity to ensure timely payment of any amounts payable in respect of the Bonds. However, any claim by the Issuer, the Trustee and/or holders of the Bonds against the Bank in relation to the Keepwell Deed will be effectively subordinated to all existing and future obligations of the Bank's subsidiaries (which do not guarantee the Bonds), particularly the onshore operating subsidiaries of the Bank, and all claims by creditors of such subsidiaries (which do not guarantee the Bonds) will have priority to the assets of such entities over the claims of the Issuer, the Trustee and/or holders of the Bonds under the Keepwell Deed.

In addition, the obligations under the Keepwell Deed may not give rise to a debt claim against the Bank or be recognised by PRC courts in the event of any insolvency proceedings in relation to the Bank in the PRC. As the parties to the Keepwell Deed have submitted to the exclusive jurisdiction of the Hong Kong courts, parties who have successfully obtained a judgment from Hong Kong courts in relation to a claim under a Keepwell Deed and wish to enforce such a judgment in the PRC may do so pursuant to the 2006 Arrangement, or following the 2019 Arrangement coming into force, the 2019 Arrangement. However, it is currently uncertain as to whether such a judgment will be recognised and enforced by PRC courts where it relates to insolvency proceedings commenced in the PRC as the judicial practice in this area evolves. Consequently, even if the holders of the Bonds or the Trustee have successfully obtained judgment in Hong Kong courts in relation to the Keepwell Deed, there can be no assurance that the PRC courts will recognise and enforce such a judgment in insolvency proceedings relating to the Bank. Accordingly, the holders of the Bonds may have limited or no remedies if insolvency proceedings are commenced in relation to the Bank in the PRC.

The Issuer's claims under the Keepwell Deed may be structurally subordinated to existing and future liabilities and obligations of the Bank and will be structurally subordinated to all existing and future liabilities and obligations of the Bank's subsidiaries.

As described above, under the Keepwell Deed, the Bank will undertake with the Issuer and the Trustee, among other things, to cause the Issuer to have sufficient liquidity to ensure timely payment of any amounts payable in respect of the Bonds. Payments could be remitted by the Bank indirectly to the Issuer either as intercompany loans to or capital increases in the Issuer in order for the Issuer to meet its payment obligations under the Bonds. The ability of the Bank to make such payments is subject to, among other things, its cash flow conditions, restrictions contained in its articles of association, applicable laws, restrictions contained in its debt instruments and claims by its creditors. Further, the Bank derives a substantial part of its revenue from its subsidiaries. It thus may need to depend on dividends or interest and principal payments from its subsidiaries to satisfy its obligations, including its obligations under the Keepwell Deed.

As a result, any claim by the Issuer against the Bank in relation to the Keepwell Deed will be effectively subordinated to existing and future claims of the secured creditors of the Bank and, in the case of payment by the Bank to the Issuer in the form of capital increases, also to the claims of the other creditors of the Bank. The Issuer's claims will be further effectively subordinated to all existing and future claims of the lenders, holders of debt securities and other creditors, including trade creditors, of the Bank's subsidiaries (other than the Issuer), from which the Bank derives a majority of its revenue. In the event of an insolvency, bankruptcy, liquidation, reorganisation, dissolution or winding-up of the business of the Bank or any of the Bank's subsidiaries (other than the Issuer), the creditors of the Bank or the creditors of the Bank's subsidiaries, as the case may be, generally will have the right to be paid in full before any distribution is made to the Bank or to the Issuer.

The Bonds will be mandatorily redeemed upon a Pre-funding Failure or the Standby Letter of Credit ceasing to be enforceable.

The Terms and Conditions of the Bonds provide for a demand to be made under the Standby Letter of Credit once only in the event the Issuer fails to pre-fund principal and/or interest payment due on the Bonds or upon the occurrence of an Event of Default under the Bonds. Such demand will be made in respect of the full amount of the outstanding principal due and interest accrued on the Bonds (together with all fees, costs and expenses of the Trustee then outstanding), and thereafter the Bonds will be mandatorily redeemed in accordance with Condition 5(d) (*Mandatory Redemption upon Pre-funding Failure*). In addition, the Terms and Conditions of the Bonds provide for the Bonds to be mandatorily redeemed at their principal amount immediately upon the Standby Letter of Credit ceasing to be enforceable, valid or in full force and effect or upon the Standby Letter of Credit being modified, amended or terminated without the Trustee's consent.

Should any of such mandatory redemption events occur, Bondholders will not be able to hold their Bonds to maturity and receive the expected stream of income holding the Bonds. An investor of the Bonds may not be able to reinvest the redemption proceeds in comparable securities at an effective interest rate at the same level as that of the Bonds. Further, in the event the Standby Letter of Credit ceases to be enforceable, valid or in full force and effect or the Standby Letter of Credit is modified, amended or terminated without the Trustee's consent, the Bonds will be mandatorily redeemed. The same consequences will ensue upon such mandatory redemption.

The Issuer may not be able to redeem the Bonds upon the due date for redemption thereof.

The Issuer may, in the event of certain changes in taxation, and at maturity, and in the event of a Pre-funding Failure or if the Standby Letter of Credit ceases to be enforceable will be required to, redeem all or, in the case of a Change of Control, all or some only, of the Bonds. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. The Issuer's failure to repay, repurchase or redeem the Bonds could constitute an event of default under the Bonds, which may also constitute a default under the terms of the Issuer's or the Bank's other indebtedness.

An active trading market for the Bonds may not develop.

The Bonds are a new issue of securities for which there is currently no trading market. Approval-in-principle has been received from the SGX-ST for the listing and quotation of the Bonds. However, there can be no assurance that the Issuer will be able to maintain a listing of the Bonds on the SGX-ST or that an active trading market for the Bonds will develop or be sustained. No assurance can be given that such application will be approved, or even if the Bonds become so listed, an active trading market for the Bonds will develop or be sustained. No assurance can be given as to the ability of holders to sell their Bonds or the price at which holders will be able to sell their Bonds or that a liquid market will develop. If such a market were to develop, such Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group's operations and the market for similar securities. The liquidity of the Bonds will be adversely affected if the Bonds are held or allocated to limited investors. None of the Joint Lead Managers is obligated to make a market in the Bonds, and if the Joint Lead Managers do so they may discontinue such market-making activity at any time without notice. Further, the Bonds may be allocated to a limited number of investors, in which case liquidity may be limited. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, the holders of the Bonds will only be able to resell the Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

The rating of the Bonds may be downgraded or withdrawn.

The Bonds are expected to be assigned a rating of "A1" by Moody's. The rating represents the opinions of the rating agency and its assessment of the ability of the Issuer and the LC Bank to perform their respective obligations under the Bonds and the Standby Letter of Credit and credit risks in determining the likelihood that payments will be made when due under the Bonds. A rating is not a recommendation to buy, sell or hold the Bonds and may be subject to suspension, reduction or withdrawn at any time. Neither the Issuer nor the Bank is obligated to inform holders of the Bonds if the rating is lowered or withdrawn. Any adverse change in an applicable credit rating could adversely affect the trading price for the Bonds.

The credit ratings assigned to the Bonds may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to any Bonds will remain in effect for any given period or that the ratings will not be revised or withdrawn by the rating agencies in the future if, in their judgement, the circumstances so warrant. The Bank has no obligation to inform holders of the Bonds of any such suspension, revision, downgrade or withdrawal. A suspension, downgrade or withdrawal of the ratings of any Bonds at any time may adversely affect the market price of the Bonds.

Changes in interest rates may have an adverse effect on the price of the Bonds.

The Bondholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Bonds, resulting in a capital loss for the Bondholders. However, the Bondholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Bonds may rise. The Bondholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

As the Bonds will carry a fixed interest rate, the trading price of the Bonds will consequently vary with the fluctuations in interest rates. If the Bondholders propose to sell their Bonds before their maturity, they may receive an offer lower than the amount they have invested.

Investment in the Bonds is subject to foreign exchange risks.

Investment in the Bonds is subject to foreign exchange risks. The value of the U.S. dollar and other foreign currencies fluctuates and is affected by changes in the United States and international political and economic conditions and by many other factors. All payments of interest and principal with respect to the Bonds will be made in U.S. dollars. As a result, the value of these U.S. dollar payments may vary with the prevailing exchange rates in the marketplace. If the value of the U.S. dollar depreciates against other foreign currencies, the value of a Bondholder's investment in U.S. dollar or other applicable foreign currency terms will decline.

International financial markets and world economic conditions may adversely affect the market price of the Bonds.

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for Chinese securities is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China.

The liquidity and price of the Bonds following the offering may be volatile.

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the Issuer's, the Bank and the LC Bank's revenues, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the volume and price at which the Bonds will trade. There is no assurance that these developments will not occur in the future.

The Bonds have a limited upside.

The Bonds carry a fixed interest rate which is paid in U.S. dollar semi-annually in arrears. Upon maturity, the Issuer will pay investors the principal amount of the Bonds plus any unpaid accrued interest. The maximum return on an investment in the Bonds is limited to these interest payments in U.S. dollar. As the Bonds are fixed income securities which are structured to provide investors with returns primarily through regular interest payments thereon, investors who hold the Bonds through to maturity or who dispose of the Bonds in the secondary market may not realise any capital gain.

The Issuer may be deemed to be a PRC tax resident enterprise by the PRC tax authorities and certain withholding taxes may be applicable.

The Issuer is incorporated under the laws of the British Virgin Islands. Under the EIT Law, except for the purchase and sale of equity through a public securities market, enterprises established outside of the PRC whose "de facto management bodies" ("place of effective management") are located in the PRC are considered "tax resident enterprises" and will generally be subject to the uniform 25 per cent. EIT rate on their worldwide income. The State Council of the PRC has promulgated implementation rules of this tax law which define "de facto management body" ("place of effective management") as an organisation that exercises substantial and overall management and control over an enterprise's manufacturing or business operation, finance and property. The determination of enterprise residency is further clarified in the "Notice of the SAT on Issues Relating to Determining the Resident Enterprise Status of Overseas Registered Chinese Holding Enterprises Based on the 'de facto Management Bodies' ("place of effective management") Standard"(國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), which was issued on 22 April 2009 and has a retrospective effect since 1 January 2008. The notice provides specific tests setting out under what situations an enterprise's "de facto management body" ("place of effective management") would be considered to be located in the PRC.

Pursuant to the EIT Law, the IIT Law of the PRC and relevant implementation regulations, unless otherwise stipulated in a relevant international tax treaty entered into by the PRC, payments of interest on the Bonds to holders that are "non-resident enterprises" are subject to a PRC withholding tax of 10 per cent. (or other treaty rate, if applicable), and payments of interest on the Bonds to holders who are "non-resident individuals" may be subject to a PRC withholding tax of 20 per cent., in each case to the extent such interest payments are deemed to have their sources within the PRC. Similarly, any gain realised on the transfer of the Bonds by "non-resident enterprise" holders are also subject to a 10 per cent. PRC EIT (or other treaty rate, if applicable), and any gain realised on the transfer of the Bonds by "non-resident individual" holders may be subject to a 20 per cent. PRC IIT, in each case if such gain is regarded as income derived from sources within the PRC. If the Issuer is considered to be a "resident enterprise" by virtue of having its "de facto management body" ("**place of effective management**") in the PRC, the interest paid on the Bonds to holders who are "non-resident enterprises" would be treated as income derived from sources within the PRC, or if the interest component of the amount payable by the LC Bank to the Noteholders under the Standby Letter of Credit is viewed as interest income arising within the territory of the PRC, the holders who are "non-resident enterprises" would be subject to withholding tax at a rate of up to 10 per cent.; and the interest paid on the Bonds to holders who are "non-resident individuals" would be treated as income derived from sources within the PRC and may be subject to withholding tax at a rate of up to 20 per cent.. Any gain derived by "non-resident enterprise" and "non-resident individual" holders may realise from the transfer of Bonds may also be treated as income derived from sources within the PRC and be subject to PRC income tax. See "*Taxation – PRC*".

The Bonds are redeemable in the event of certain withholding taxes being applicable.

No assurances are made by the Issuer or the Bank as to whether or not payments on the Bonds may be made without withholding taxes or deductions applying from the Issue Date on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, the PRC or any subdivision or authority therein or thereof having power to tax. Although pursuant to the Terms and Conditions of the Bonds the Issuer or the Bank is required to gross up payments on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Bonds at any time in the event it has or will become obliged to pay additional amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within (i) the British Virgin Islands or the PRC or any political subdivision or any authority therein or thereof having power to tax in excess of the Applicable Rate (as defined in the Terms and Conditions of the Bonds) or (ii) any political subdivision thereof or any authority therein or thereof having power to tax as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 2 September 2020.

The Issuer may issue additional Bonds in the future.

The Issuer may, from time to time, and without prior consultation of the Bondholders, create and issue further Bonds (see "*Terms and Conditions of the Bonds – Further Issues*") or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds.

The insolvency laws of the British Virgin Islands, the PRC and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Bonds are familiar.

Because the Issuer is incorporated under the laws of the British Virgin Islands and the Bank is incorporated under the laws of the PRC, any insolvency proceeding relating to the Issuer or the Bank would likely involve insolvency laws of the British Virgin Islands or the PRC, as applicable, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Bonds are familiar.

A change in English law which governs the Bonds may adversely affect holders of the Bonds.

The Terms and Conditions are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the Bonds.

Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts and the holders of the Bonds would need to be subject to the exclusive jurisdiction of the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes.

The Terms and Conditions and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the 2006 Arrangement, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts.

However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC or meets other circumstances specified in the 2006 Arrangement. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts in respect of a dispute governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the holders of the Bonds will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the holder's ability to initiate a claim outside of Hong Kong will be limited. See "*Risk Relating to the PRC – It may be difficult to effect service of process upon, or to enforce against, the Issuer or the Bank or their respective directors or members of the Issuer's or the Bank's senior management who reside in the PRC in connection with judgments obtained in non-PRC courts*" for more information.

The consolidated financial statements of the Bank have been prepared and presented in accordance with PRC GAAP, which are different from IFRS in certain respects.

The consolidated financial statements of the Bank included in this Offering Circular have been prepared and presented in accordance with PRC GAAP. PRC GAAP are substantially in line with IFRS, except for certain modifications which reflect the PRC's unique circumstances and environment. See "*Summary of Significant Differences between PRC GAAP and IFRS*" for details.

Each investor should consult its own professional advisers for an understanding of the differences between PRC GAAP and IFRS and/or between PRC GAAP and other generally accepted accounting principles, and how those differences might affect the financial information contained herein.

The Trustee may request the Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (including the giving of notice to the Issuer pursuant to Condition 8 of the Terms and Conditions of the Bonds), the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee will not be obliged to take any such actions if not indemnified and/ or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such actions directly.

The Standby Letter of Credit expires 30 days after the Maturity Date.

The Standby Letter of Credit will expire 30 days after the Maturity Date. In the event that the Trustee does not make a Demand under the Standby Letter of Credit by this expiration date, Bondholders will not be able to benefit from the credit protection provided by the LC Bank.

Modifications and waivers may be made in respect of the Terms and Conditions of the Bonds, the Trust Deed and the Standby Letter of Credit by the Trustee or less than all of the holders of the Bonds.

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders, including those Bondholders who do not attend and vote at the relevant meeting and those Bondholders who vote in a manner contrary to the majority.

The Terms and Conditions of the Bonds also provide that the Trustee may, without the consent of Bondholders, agree to any modification of the Trust Deed, the Agency Agreement, the Terms and Conditions of the Bonds, the Keepwell Deed or the Standby Letter of Credit (other than in respect of certain reserved matters) which in the opinion of the Trustee will not be materially prejudicial to the interests of Bondholders and to any modification of the Trust Deed, the Agency Agreement, the Terms and Conditions of the Bonds, the Keepwell Deed or the Standby Letter of Credit which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Bondholders, authorise or waive any proposed breach or breach of the Bonds, the Trust Deed, the Agency Agreement, the Keepwell Deed or the Standby Letter of Credit (other than a proposed breach or breach relating to the subject of certain reserved matters) if, in the opinion of the Trustee, the interests of the Bondholders will not be materially prejudiced thereby.

The Bonds will initially be represented by the Global Bond Certificate and holders of a beneficial interest in the Global Bond Certificate must rely on the procedures of the Clearing Systems.

The Bonds will be represented by the Global Bond Certificate except in certain limited circumstances described in the Global Bond Certificate. The Global Bond Certificate will be registered in the name of, and deposited with, a common depositary for Euroclear and Clearstream. Except in the circumstances described in the Global Bond Certificate, investors will not be entitled to receive individual Bond certificates. Euroclear and Clearstream will maintain records of the beneficial interests in the Global Bond Certificate. While the Bonds are represented by the Global Bond Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream.

The Issuer will discharge its payment obligations under the Bonds by making payments to or to the order of the common depositary for Euroclear and Clearstream for distribution to their account holders. A holder of a beneficial interest in the Global Bond Certificate must rely on the procedures of Euroclear and Clearstream to receive payments under the Bonds. Neither the Issuer nor the Bank has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bond Certificate.

Holders of beneficial interests in the Global Bond Certificate will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream to appoint appropriate proxies.

Bondholders should be aware that an Individual Bond Certificate which has a principal amount that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

In relation to any Bond which has a principal amount consisting of the minimum specified denomination plus a higher integral multiple of another smaller amount, it is possible that the Bonds may be traded in amounts in excess of the minimum specified denomination that are not integral multiples of such minimum specified denomination. In such a case a Bondholder who, as a result of trading such amounts, holds a principal amount of less than the minimum specified denomination will not receive an Individual Bond Certificate in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more specified denominations. If definitive Bonds are issued, holders should be aware that a Individual Bond Certificate which has a principal amount that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

Proceedings to enforce the Standby Letter of Credit may only be taken in Hong Kong.

Proceedings to enforce the terms of the Standby Letter of Credit may only be taken in Hong Kong and this may limit the amount of assets available to the Trustee to make a claim in the event the LC Bank fails to perform its obligations under the Standby Letter of Credit. The majority of operations of the China Construction Bank Corporation ("**CCB**") are carried out in the PRC and any judgment obtained in the Hong Kong courts against the LC Bank, if to be enforced against CCB, will be subject to recognition and enforcement of the judgment in the PRC in accordance with the 2006 Arrangement (or the 2019 Arrangement if it becomes effective), or to re-litigation and the procedures of the PRC courts.

The LC Bank's ability to perform its obligations under the Standby Letter of Credit is subject to the financial condition of CCB.

The LC Bank is not a separate and independent legal person but has capacity to carry on its activities within its scope of the authorisation given by CCB, and if the assets of the LC Bank are not sufficient to meet the obligations of the LC Bank under the Standby Letter of Credit, CCB would have an obligation to satisfy the balance of the obligations under the Standby Letter of Credit. Therefore, the ability of the LC Bank to make payments under the Standby Letter of Credit will depend on the financial condition of CCB, which could be materially and adversely affected by a number of factors, including, but not limited to, the following:

- *Impaired loans and advances:* CCB's results of operations have been and will continue to be negatively affected by its impaired loans. If CCB is unable to effectively control and reduce the level of impaired loans and advances in its current loan portfolio and in new loans CCB extends in the future, or CCB's allowance for impairment losses on loans and advances is insufficient to cover actual loan losses, CCB's financial condition could be materially and adversely affected.

- *Collateral and guarantees:* A substantial portion of CCB's loans is secured by collateral. In addition, a substantial number of its PRC loans and advances are backed by guarantees. If CCB is unable to realise the collateral or guarantees securing its loans to cover the outstanding principal and interest balance of such loans due to various factors, CCB's financial condition could be materially and adversely affected.

- *Loans to real estate sector and government financing platforms:* CCB's loans and advances to the real estate sector primarily comprise loans issued to real estate companies and individual housing loans. The real estate market may be affected by many factors, including, without limitation, cyclical economic volatility and economic downturns. In addition, the PRC government has in recent years imposed macroeconomic control measures that are aimed at preventing the real estate market from over-heating. Such factors may adversely affect the growth and quality of CCB's loans to the real estate industry and, consequently, CCB's financial conditions and results of operations. Loans to government financing platforms are a part of the loan portfolio of CCB. Government revenues are primarily derived from taxes and land premiums. Therefore, economic cycles and fluctuations in the real estate market may also adversely affect the quality of such loans.

In addition, as neither CCB nor the LC Bank has waived sovereign immunity for the purpose of the Standby Letter of Credit, it is possible that such immunity is asserted at the time of enforcement of the Standby Letter of Credit.

TERMS AND CONDITIONS OF THE BONDS

The following (other than the words in italics) is the text of the terms and conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The U.S.$300,000,000 1.250 per cent. credit enhanced bonds due 2023 (the "**Bonds**", which expression includes any further bonds issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of BOSCI (BVI) Limited (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 10 September 2020 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, Bank of Shanghai Co., Ltd.（上海銀行股份有限公司）(the "**Bank**") and Citicorp International Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 10 September 2020 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Bank, Citibank, N.A., London Branch as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Bonds), Citibank, N.A., London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Bonds), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Bonds), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Bonds), Citibank, N.A., Hong Kong Branch as the account bank (the "**Pre-funding Account Bank**") where the Pre-funding Account (as defined below) is held, Citibank, N.A., Hong Kong Branch as the account bank (the "**LC Proceeds Account Bank**") where the LC Proceeds Account (as defined below) is held and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them.

The Bonds will have the benefit of an irrevocable standby letter of credit dated on or about 10 September 2020 (the "**Standby Letter of Credit**") issued by China Construction Bank Corporation, Hong Kong Branch (the "**LC Bank**"). The Bonds will also have the benefit of a keepwell deed dated on or about 10 September 2020 (the "**Keepwell Deed**") entered into by the Issuer, the Bank and the Trustee.

Certain provisions of these Conditions are summaries of the Trust Deed, the Keepwell Deed, the Agency Agreement and the Standby Letter of Credit and are subject to their detailed provisions. The Bondholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Keepwell Deed, the Agency Agreement and the Standby Letter of Credit applicable to them. Copies of the Trust Deed, the Keepwell Deed, the Agency Agreement and the Standby Letter of Credit are available for inspection following prior written request and satisfactory proof of holding by Bondholders during normal business hours at the registered office for the time being of the Trustee, being at the date hereof 20th Floor, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong and at the Specified Office (as defined in the Agency Agreement) of each of the Principal Paying Agent.

1. Form, Denomination, Status, Standby Letter of Credit and Pre-funding

(a) *Form and denomination*: The Bonds are in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) *Status of the Bonds*: The Bonds constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

*Upon issue, the Bonds will be evidenced by a global bond certificate (the "**Global Bond Certificate**") substantially in the form scheduled to the Trust Deed. The Global Bond Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"), and will be exchangeable for individual Bond Certificates (as defined below) only in the circumstances set out therein.*

(c) *Standby Letter of Credit:* The Bonds will have the benefit of the Standby Letter of Credit issued by the LC Bank in favour of the Trustee, on behalf of the holders of the Bonds. The Standby Letter of Credit shall be drawable by the Trustee as beneficiary under the Standby Letter of Credit on behalf of the holders of the Bonds upon the presentation of a demand by authenticated SWIFT sent for and on behalf of the Trustee to the LC Bank in accordance with the terms of the Standby Letter of Credit (the "**Demand**") stating that (i) the Issuer has failed to comply with Condition 1(d) (*Pre-funding*) in relation to pre-funding an amount that is required to be pre-funded under these Conditions and/or has failed to provide the Required Confirmations (as defined below) in accordance with Condition 1(d) (*Pre-funding*) or (ii) an Event of Default (as defined in Condition 8 (*Events of Default*)) has occurred and the Trustee has given notice to the Issuer that the Bonds are immediately due and payable in accordance with Condition 8 (*Events of Default*).

Only one drawing is permitted under the Standby Letter of Credit. Such drawing on the Standby Letter of Credit will be payable in U.S. dollars to or to the order of the Trustee at the time and to the account specified in the Demand presented to the LC Bank. All amounts received by the Trustee in respect of the Demand will be deposited into the LC Proceeds Account.

Every payment made under the Standby Letter of Credit in respect of any amount payable under these Conditions or in connection with the Bonds or the Trust Deed shall satisfy the obligations of the Issuer in respect of such amount payable under these Conditions or in connection with the Bonds or the Trust Deed.

The LC Bank's liability under the Standby Letter of Credit shall be expressed and payable in U.S. dollars and shall not in any circumstances exceed U.S.$306,000,000, an amount representing the aggregate principal amount of U.S.$300,000,000 of the Bonds plus interest payable for one interest period in accordance with Condition 4 (*Interest*) plus any fees, expenses and all other amounts payable by the Issuer in connection with the Bonds, the Trust Deed and the Agency Agreement. The Standby Letter of Credit expires at 5:00 p.m. (Hong Kong time) on 10 October 2023.

(d) *Pre-funding*: In order to provide for the payment of any amount in respect of the Bonds (other than the Mandatory Redemption Amount payable under Condition 5(d) (*Mandatory redemption upon Pre-funding Failure*) or any amount payable under Condition 5(e) (*Mandatory redemption upon Standby Letter of Credit ceasing to be enforceable*)) (the "**Relevant Amount**") as the same shall become due, the Issuer shall, in accordance with the Agency Agreement, by no later than the Business Day falling ten Business Days (the "**Pre-funding Date**") prior to the due date for such payment under these Conditions:

(i) unconditionally pay or procure to be paid the Relevant Amount into the Pre-funding Account; and

(ii) deliver to the Trustee and the Principal Paying Agent by facsimile (x) a Payment and Solvency Certificate signed by one Authorised Signatory (as defined in the Trust Deed) of the Issuer, and (y) a copy of the irrevocable payment instruction from the Issuer to the Pre-funding Account Bank requesting the Pre-funding Account Bank to pay the Relevant Amount paid into the Pre-funding Account on the Pre-funding Date in full to the Principal Paying Agent no later than 11:00 a.m. (Hong Kong time) on the Business Day immediately preceding the due date for such payment (together, the "**Required Confirmations**").

The Pre-funding Account Bank shall notify the Trustee as soon as reasonably practicable upon the failure by the Issuer to pay the Relevant Amount into the Pre-funding Account in accordance with these Conditions.

So long as any Bond is outstanding, save with the approval of the Trustee or any Extraordinary Resolution of the Bondholders, the Issuer shall not make (or cause to be made on its behalf) any withdrawal from the Pre-funding Account under any circumstances (other than in accordance with the Required Confirmations or in accordance with the Conditions), and the Pre-funding Account Bank shall be entitled to disregard any instruction to effect any such withdrawal from the Issuer (or any person acting on its behalf).

If the Relevant Amount has not been paid into the Pre-funding Account in full, or the Trustee does not receive the Required Confirmations, in each case by 11:00 a.m. (Hong Kong time) on the Business Day immediately following the Pre-funding Date (the "**Pre-funding Failure**"), the Trustee shall:

(1) as soon as reasonably practicable notify the LC Bank and the LC Proceeds Account Bank by facsimile of the occurrence of the Pre-funding Failure; and

(2) no later than 11:00 a.m. (Hong Kong time) on the second Business Day following the Pre-funding Date (x) give notice (the "**Pre-funding Failure Notice**") to the Bondholders (as defined in Condition 2(a) (*Register*)) of (I) the Pre-funding Failure and (II) the redemption of the Bonds in accordance with Condition 5(d) (*Mandatory redemption upon Pre-funding Failure*) to occur as a result of the Pre-funding Failure and (y) issue a Demand to the LC Bank for the Mandatory Redemption Amount in respect of all of the Bonds then outstanding, together with interest accrued to, but excluding, the Mandatory Redemption Date (as defined in Condition 5(d) (*Mandatory redemption upon Pre-funding Failure*)) together with any fees, expenses and all other amounts payable by the Issuer in connection with the Bonds, the Trust Deed and the Agency Agreement then outstanding, *provided that*, in accordance with the terms of the Standby Letter of Credit, the Trustee need not physically present the Demand to the LC Bank and shall be entitled to draw on the Standby Letter of Credit by way of a Demand by authenticated SWIFT sent on its behalf.

After receipt by the LC Bank of such Demand on a Business Day, the LC Bank shall by 11:00 a.m. (Hong Kong time) on the fourth Business Day after such Business Day (or, if such Demand is received after 11:00 a.m. (Hong Kong time) on a Business Day, by 11:00 a.m. (Hong Kong time) on the fifth Business Day after such Business Day), pay to, or to the order of, the Trustee the amount in U.S. dollars specified in the Demand to the LC Proceeds Account.

For the purposes of these Conditions:

"**Business Day**" means a day, other than a Saturday or a Sunday or a public holiday, on which banks are open for business in Hong Kong, Shenzhen and New York City;

"**LC Proceeds Account**" means a non interest-bearing U.S. dollar account established in the name of the Trustee with the LC Proceeds Account Bank;

"**Payment and Solvency Certificate**" means a certificate, in substantially the form set forth in the Agency Agreement, stating the Relevant Amount and its due date under the Bonds and confirming that (a) a payment for the Relevant Amount has been made by the Issuer to the Pre-funding Account in accordance with Condition 1(d) (*Pre-funding*) and (b) the Issuer is solvent; and

"**Pre-funding Account**" means a non interest-bearing U.S. dollar account established in the name of the Issuer with the Pre-funding Account Bank.

2. Register, Title and Transfers

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Bonds in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Bond means the person in whose name such Bond is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Bondholder**" shall be construed accordingly. A certificate (each, a "**Bond Certificate**") will be issued to each Bondholder in respect of its registered holding. Each Bond Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Bond shall (except as otherwise required by law) be treated as the absolute owner of such Bond for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Bond Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Bond Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Bonds, the Trust Deed or the Keepwell Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Bond may be transferred upon surrender of the relevant Bond Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Bond may not be transferred unless the principal amount of Bonds transferred and (where not all of the Bonds held by a Holder are being transferred) the principal amount of the balance of Bonds not transferred are Authorised Denominations. Where not all the Bonds represented by the surrendered Bond Certificate are the subject of the transfer, a new Bond Certificate in respect of the balance of the Bonds will be issued to the transferor.

Transfers of interests in the Bonds evidenced by the Global Bond Certificate will be effected in accordance with the rules of the relevant clearing systems.

(d) *Registration and delivery of Bond Certificates*: Within five business days of the surrender of a Bond Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Bond Certificate of a like principal amount to the Bonds transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Bond will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Bondholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Bonds.

(g) *Regulations concerning transfers and registration*: All transfers of Bonds and entries on the Register are subject to the detailed regulations concerning the transfer of Bonds, the initial form of which is scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available (free of charge) by the Registrar to any Bondholder upon prior written request and satisfactory proof of holding.

3. Covenants

(a) *Limitation on Activities*: So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer shall not, and the Bank shall procure that the Issuer will not, conduct any business activity whatsoever other than activities in connection with the issue of the Bonds or other Relevant Indebtedness (such activities in connection with the issue of the Bonds or other Relevant Indebtedness shall, for the avoidance of doubt, include the on-lending of the proceeds of the Bonds or other Relevant Indebtedness to the Bank or any other member of the Group).

(b) *Financial Statements, etc.*: So long as any Bond remains outstanding,

(i) the Issuer shall provide a Compliance Certificate of the Issuer within 14 calendar days of a request in writing by the Trustee and at the time of provision of the Audited Financial Reports; and

(ii) the Bank shall provide (A) a Compliance Certificate of the Bank within 14 calendar days of a request in writing by the Trustee and at the time of provision of the Audited Financial Reports; (B) as soon as practicable after the date of publication and in any event not more than 150 calendar days after the end of each Relevant Period, a copy of the relevant Audited Financial Reports prepared in accordance with PRC GAAP (audited by an internationally recognised firm of independent accountants of good repute); and (C) as soon as practicable after the date of publication and in any event not more than 120 calendar days after the end of each Relevant Period, a copy of the Interim Financial Reports prepared on a basis consistent with the Audited Financial Reports; and if such statements shall be in the Chinese language, together with an English language translation of the same translated by (x) an internationally recognised firm of independent accountants of good repute or (y) a professional translation service provider and checked by an internationally recognised firm of independent accountants of good repute, together with a certificate signed by an Authorised Signatory of the Bank certifying that such translation is complete and accurate.

The Trustee shall not be required to review the relevant Audited Financial Reports or any other financial report furnished or delivered to it as contemplated in this Condition 3(b) and, if the same shall not be in the English language, shall not be required to request or obtain or arrange for an English language translation of the same, and the Trustee shall not be liable to any Bondholder or any other person for not doing so.

(c) *Notification to NDRC*:

(i) The Bank undertakes to file or cause to be filed with the NDRC the requisite information and documents within 10 PRC Business Days after the Issue Date (as defined in Condition 4 (*Interest*)) in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations(國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資 [2015] 2044 號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules or guidelines as issued by the NDRC from time to time (the "**NDRC Post-issue Filing**").

(ii) The Bank shall comply with all applicable PRC laws and regulations in connection with the issuance of the Bonds and shall, within 10 PRC Business Days after submission of such NDRC Post-issue Filing, (i) provide the Trustee with a certificate (substantially in the form scheduled to the Trust Deed) signed by a duly authorised signatory of the Bank confirming the submission of the NDRC Post-issue Filing (together with the document(s) filed with the NDRC) and (ii) provide the Trustee and the Agents with a notice confirming the submission of the NDRC Post-issue Filling for dissemination to the Bondholders in accordance with Condition 15 (*Notices*).

(iii) The Trustee shall have no obligation to monitor or ensure the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing, and shall not be liable to Bondholders or any other person for not doing so.

(d) *Rating Maintenance*: So long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution of Bondholders, the Issuer shall use its reasonable endeavours to maintain a rating on the Bonds by the Rating Agency.

In these Conditions:

"**Audited Financial Reports**" means the annual audited consolidated balance sheet, income statement and statement of cash flows of the Bank and its consolidated Subsidiaries and statement of changes in owners' equity of the Bank together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

"**Compliance Certificate**" means a certificate of the Issuer or the Bank (as the case may be) signed by a duly authorised signatory certifying that, having made all due enquiries, to the best of the knowledge, information and belief of the Issuer or the Bank (as the case may be) as at a date (the "**Certification Date**") not more than five days before the date of the certificate:

(a) no Event of Default, or an event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default*), become an Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and

(b) each of the Issuer and the Bank has complied with all their respective obligations under the Bonds, the Trust Deed and the Keepwell Deed or, if either of them has not complied with all such obligations, giving details of that non-compliance;

"**Group**" means the Bank and its Subsidiaries;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Interim Financial Reports**" means the semi-annual unaudited but reviewed consolidated balance sheet, income statement and statement of cash flows of the Bank and its consolidated Subsidiaries and statement of changes in owners' equity of the Bank, together with any statements, reports (including any directors' and auditors' review reports) and notes attached to or intended to be read with any of them, if any;

"**NDRC**" means the National Development and Reform Commission of the PRC or its local counterparts;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" means the People's Republic of China, which, for the purposes of these Conditions, shall not include Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan;

"**PRC Business Day**" means a day on which commercial banks are open for business in the PRC;

"**PRC GAAP**" means the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and all applicable guidance, bulletins and other relevant accounting regulations issued thereafter, as amended from time to time;

"**Rating Agency**" means Moody's Investors Service, Inc. and its successors;

"**Relevant Indebtedness**" means any indebtedness incurred outside the PRC;

"**Relevant Period**" means:

(a) in relation to the Audited Financial Reports, each period of twelve months ending on the last day of the Bank's financial year (being 31 December of each financial year); and

(a) in relation to the Interim Financial Reports, each period of six months ending on the last day of the Bank's first half financial year (being 30 June of each financial year);

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

4. Interest

The Bonds bear interest from 10 September 2020 (the "**Issue Date**") at the rate of 1.250 per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear on 10 March and 10 September in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (Payments).

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Bondholders that it has received all sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be U.S.$6.25 in respect of each Bond of U.S.$1,000 denomination. If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

5. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 10 September 2023, subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to (but not including) the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) the Issuer has or will become obliged to pay Additional Amounts (as provided or referred to in Condition 7 *(Taxation)*) as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 2 September 2020; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Bonds were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer shall deliver or procure that there is delivered to the Trustee:

(A) a certificate signed by any one Authorised Signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion in form and substance satisfactory to the Trustee of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and rely upon such certificate and opinion (without further investigation or enquiry) as sufficient evidence of the satisfaction of the circumstances set out in (A) and (B) above, in which event they shall be conclusive and binding on the Bondholders.

Upon the expiry of any such notice period as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Bonds in accordance with this Condition 5(b).

(c) *Redemption for Change of Control*: At any time following the occurrence of a Change of Control, the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the Put Settlement Date at 100 per cent. of their principal amount, together with interest accrued to, but excluding, such Put Settlement Date. To exercise such right, the holder of the relevant Bond must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Bond Certificates evidencing the Bonds to be redeemed by not later than 30 days following a Change of Control, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 15 (*Notices*). The "**Put Settlement Date**" shall, subject to Condition 5(d) (*Mandatory redemption upon Pre-funding Failure*), be the 14th day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds subject to the Put Exercise Notices delivered as aforesaid.

The Issuer shall give notice to Bondholders and the Trustee in accordance with Condition 15 (*Notices*) by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 5(c).

In this Condition 5(c):

a "**Change of Control**" occurs when:

(i) any Person or Persons, other than Persons directly or indirectly Controlled by the central or provincial government of the PRC, acting together by contract or otherwise, acquires Control of the Bank;

(ii) the Bank consolidates with or merges into or sells or transfers all or substantially all of its assets to any Person that is not Controlled by the People's Government of Shanghai Municipality, unless the consolidation, merger, sale or transfer will not result in such other Person, individually or together with other Persons, acquiring Control of the Bank or its successor; or

(iii) the Bank ceases to, directly or indirectly, own or control all the issued share capital of the Issuer;

"**Control**" over a Person means (i) the ownership, acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of such Person, whether obtained directly or indirectly, or (ii) the right to appoint and/or remove all or the majority of the members of the Bank's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise, or (iii) the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a person; and the term "**Controlled**" shall have the meaning correlative to the foregoing.

(d) *Mandatory redemption upon Pre-funding Failure*: The Bonds shall be redeemed at their principal amount (the "**Mandatory Redemption Amount**") on the Interest Payment Date falling immediately after the date the Pre-funding Failure Notice is given to the Bondholders in accordance with Condition 1(d) (*Pre-funding*) (the "**Mandatory Redemption Date**"), together with interest accrued to, but excluding, the Mandatory Redemption Date.

If the holder of any Bond shall have exercised its right to require the Issuer to redeem its Bond under Condition 5(c) (*Redemption for Change of Control*) and a Pre-funding Failure Notice is given to the Bondholders in accordance with Condition 1(d) (*Pre-funding*) as a result of the Pre-funding Failure relating to the amount payable pursuant to such redemption, all but not some only of the Bonds then outstanding shall be redeemed at the Mandatory Redemption Amount in accordance with this Condition 5(d) on the Put Settlement Date, together with interest accrued to but excluding such Put Settlement Date, *provided that* if such Pre-funding Failure occurs and concurrently a Pre-funding Failure Notice has been given or is given to the Bondholders in respect of a scheduled payment of principal or interest payable under Condition 4 (*Interest*) or Condition 5(a) (*Scheduled redemption*), the Put Settlement Date shall be the Mandatory Redemption Date.

(e) *Mandatory redemption upon Standby Letter of Credit ceasing to be enforceable*: The Bonds shall be redeemed at their principal amount, together with interest accrued up to, but excluding, the date of redemption, immediately upon the Standby Letter of Credit ceasing to be enforceable, valid or in full force and effect or upon the Standby Letter of Credit being modified, amended or terminated without the Trustee's consent.

(f) *No other redemption*: The Issuer shall not be entitled to redeem the Bonds otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (e) (*Mandatory redemption upon Standby Letter of Credit ceasing to be enforceable*) above.

(g) *Purchase*: The Issuer, the Bank or any of their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise and at any price.

(h) *Cancellation*: All Bonds so redeemed or purchased by the Issuer, the Bank or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

(i) *Calculations*: Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Bondholders or any other person for not doing so.

6. Payments

(a) *Principal*: Payments of principal shall be made by transfer to a U.S. dollar account maintained by the payee with, a bank and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Bond Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by transfer to a U.S. dollar account maintained by the payee with, a bank and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Bond Certificates at the Specified Office of any Paying Agent.

*Notwithstanding the foregoing, so long as the Global Bond Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Bond Certificate will be made to the person shown as the Holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Bond Certificate is being held is open for business.*

(c) *Payments subject to fiscal laws*: All payments in respect of the Bonds are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(d) *Payments on business days*: Payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Bond Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Bond shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and Hong Kong and, in the case of surrender (or, in the case of part payment only, endorsement) of a Bond Certificate, in the place in which the Bond Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bond, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Bond Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Bond Certificate.

(f) *Record date*: Each payment in respect of a Bond will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**").

7. Taxation

All payments of principal and interest in respect of the Bonds by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands or the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law.

Where such withholding or deduction is made by the Issuer by or within the PRC at the rate applicable on 2 September 2020 (the "**Applicable Rate**"), the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by the Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer is required to make (i) such deduction or withholding by or within the PRC in excess of the Applicable Rate or (ii) any deduction or withholding by or within the British Virgin Islands, the Issuer shall pay such additional amounts (the "**Additional Amounts**") as will result in receipt by the Bondholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Bond:

(i) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Bond; or

(ii) where (in the case of a payment of principal or interest on redemption) the relevant Bond Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such Additional Amounts if it had surrendered the relevant Bond Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Bondholders.

Any reference in these Conditions to principal or interest shall be deemed to include any Additional Amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 or any undertaking given in addition to or in substitution of this Condition 7 pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than the British Virgin Islands or the PRC, references in these Conditions to the British Virgin Islands or the PRC shall be construed as references to the British Virgin Islands or the PRC and/or such other jurisdiction.

Neither the Trustee nor the Agents shall be responsible for paying any tax, duty, charge, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer, the Bank, the Bondholders or any other person to pay such tax, duty, charge, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Bonds without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

8. Events of Default

If an Event of Default (as defined below) occurs, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one-quarter of the aggregate principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or pre-funded and/or provided with security to its satisfaction) give written notice to the Issuer declaring the Bonds to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. An "**Event of Default**" occurs if:

(A) With respect to the Issuer or the Bank:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Bonds on the due date for payment thereof or fails to pay any amount of interest on the Bonds within 14 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer or the Bank defaults in the performance or observance of any of its other obligations under or in respect of the Bonds, the Trust Deed or the Keepwell Deed (other than where it gives rise to a right of redemption pursuant to Condition 5(c) (*Redemption for Change of Control*)) and such default (i) is incapable of remedy or (ii) being a default which is capable of remedy remains unremedied for 30 days after the Trustee has given written notice thereof to the Issuer or the Bank, as the case may be, *provided that* any non-compliance with Condition 1(d) (*Pre-funding*) does not constitute an Event of Default under this Condition 8(A)(b) unless and until an Event of Default has occurred under Condition 8(A)(a) (*Non-payment*); or

(c) *Cross-acceleration of Issuer, Bank or Subsidiary*:

(i) any indebtedness of the Issuer, the Bank or any of their respective Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such indebtedness becomes due and payable prior to its stated maturity by reason of any actual default or event of default in respect of the terms thereof;

(iii) the Issuer, the Bank or any of their respective Subsidiaries fails to pay when due any amount payable by it under any guarantee of any indebtedness;

provided that the amount of indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.$25,000,000 (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank of the day of which this paragraph operates); or

(d) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any material part of the undertaking, assets and revenues of the Issuer, the Bank or any of their respective Principal Subsidiaries and such action is not discharged or stayed within 45 days; or

(e) *Insolvency, etc.*: (i) the Issuer, the Bank or a Principal Subsidiary becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Issuer, the Bank or a Principal Subsidiary or the whole or any material part of the undertaking, assets and revenues of the Issuer, the Bank or a Principal Subsidiary, (iii) the Issuer, the Bank or a Principal Subsidiary takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or (iv) the Issuer, the Bank or a Principal Subsidiary ceases or threatens to cease to carry on all or any substantial part of its business except (x) in the case of a Principal Subsidiary, where the cessation is for the purpose of and followed by a solvent winding-up, dissolution, reconstruction, amalgamation, reorganisation, merger or consolidation whereby the undertaking, assets and revenues of such Principal Subsidiary are transferred to or otherwise vested in the Bank or another Principal Subsidiary, or (y) on terms approved by an Extraordinary Resolution of the Bondholders; or

(f) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Bank or a Principal Subsidiary, except (i) in the case of a Principal Subsidiary, for the purpose of and followed by a solvent winding-up, dissolution, reconstruction, amalgamation, reorganisation, merger or consolidation whereby the undertaking, assets and revenues of such Principal Subsidiary are transferred to or otherwise vested in the Bank or another Subsidiary or (ii) on terms approved by an Extraordinary Resolution of the Bondholders; or

(g) *Analogous event*: any event occurs which under the laws of the British Virgin Islands or the PRC has an analogous effect to any of the events referred to in paragraphs (d) (*Security enforced*) to (f) (*Winding up, etc.*) above; or

(h) *Failure to take action etc:* any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Bank lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Bonds, the Trust Deed and the Keepwell Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Bond Certificates, the Trust Deed or the Keepwell Deed admissible in evidence in the courts of the British Virgin Islands, Hong Kong and the PRC is not taken, fulfilled or done; or

(i) *Unlawfulness:* it is or will become unlawful for the Issuer or the Bank to perform or comply with any of its obligations under or in respect of the Bonds, the Trust Deed or the Keepwell Deed; or

(j) *Keepwell Deed:* the Keepwell Deed is not (or is claimed by the Bank not to be) in full force and effect or the Bank is in breach of its obligations thereunder, or the Keepwell Deed is modified, amended or terminated other than strictly in accordance with its terms or these Conditions.

(B) With respect to the LC Bank:

(a) *Cross-Acceleration*: any other present or future Public External Indebtedness of the LC Bank or any of its LC Bank Subsidiaries becomes due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described) in respect of the terms thereof, or any such Public External Indebtedness is not paid when due or, as the case may be, within any applicable grace period, *provided that* the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned above in this Condition 8(B)(a) have occurred equals or exceeds U.S.$25,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank of the day of which this paragraph operates); or

(b) *Insolvency*: the LC Bank or any of its LC Bank Material Subsidiaries is insolvent or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the LC Bank or any of its LC Bank Material Subsidiaries; or

(c) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the LC Bank or any of its LC Bank Material Subsidiaries, or the LC Bank ceases to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a LC Bank Material Subsidiary, whereby the undertaking and assets of the LC Bank Material Subsidiary are transferred to or otherwise vested in the LC Bank or another of its Subsidiaries; or

(d) *Illegality*: it is or will become unlawful for the LC Bank to perform or comply with any one or more of its obligations under the Standby Letter of Credit.

In this Condition 8:

"**LC Bank Material Subsidiary**" means a LC Bank Subsidiary whose total assets or total revenue as at the date at which its latest audited financial statements were prepared or, as the case may be, for the financial period to which these audited financial statements relate, account for 5 per cent. or more of the consolidated assets or consolidated revenue of the LC Bank as at such date or for such period. If a LC Bank Material Subsidiary transfers all of its assets and business to another Subsidiary of the LC Bank, the transferee shall become a LC Bank Material Subsidiary and the transferor shall cease to be a LC Bank Material Subsidiary on completion of such transfer;

"**LC Bank Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the LC Bank; and

"**Principal Subsidiary**" means any Subsidiary of the Bank:

(a) whose operating income or (in the case of a Subsidiary which itself has Subsidiaries) consolidated operating income, as shown by its latest audited income statement are at least 5 per cent. of the consolidated operating income as shown by the latest published audited consolidated income statement of the Bank and its Subsidiaries; or

(b) whose net profit or (in the case of a Subsidiary which itself has Subsidiaries) consolidated net profit, as shown by its latest audited income statement are at least 5 per cent. of the consolidated net profit as shown by the latest published audited consolidated income statement of the Bank and its Subsidiaries including, for the avoidance of doubt, the Bank and its consolidated Subsidiaries' share of profits of subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(c) whose total assets or (in the case of a Subsidiary which itself has Subsidiaries) total consolidated assets, as shown by its latest audited balance sheet are at least 5 per cent. of the amount which equals the amount included in the consolidated total assets of the Bank and its Subsidiaries as shown by the latest *published* audited consolidated balance sheet of the Bank and its Subsidiaries including the investment of the Bank and its consolidated Subsidiaries in each subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Bank and after adjustment for minority interests; or

(d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, *provided that* the Principal Subsidiary which so *transfers* its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall cease to be a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate), of the Bank prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition,

provided that, in relation to paragraphs (a), (b) or (c) above of this definition:

(i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Bank relate, the reference to the then latest consolidated audited accounts of the Bank for the purposes of the calculation above shall, until consolidated audited accounts of the Bank for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated *audited* accounts of the Bank adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

(ii) if at any relevant time in relation to the Bank or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, operating income, net profit or total assets of the Bank and/or any such *Subsidiary* shall be determined on the basis of *pro forma* consolidated accounts prepared for this purpose by the Bank;

(iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its operating income, net profit or total assets (consolidated, if appropriate) shall be determined on the basis of *pro forma* accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Bank; and

(iv) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Bank, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a *pro forma* consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Bank.

"**Public External Indebtedness**" means any indebtedness of the LC Bank (or, for the purposes of Condition 8(B), any LC Bank Subsidiary), or any guarantee or indemnity by the LC Bank of indebtedness, for money borrowed which (x) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is issued outside the PRC and is, or is capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the PRC (without regard, however, to whether or not such instruments are sold through public offerings or private placements); and (y) has an original maturity of more than 365 days.

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Bond Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

10. Replacement of Bond Certificates

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and/or pre-funded and/or provided with security and relieved from responsibility in certain circumstances and to be paid its fees, costs and expenses in priority to the claims of the Bondholders. In addition, the Trustee and the Agents are entitled to enter into business transactions with the Issuer, the Bank and any entity related to the Issuer or the Bank without accounting for any profit.

In the exercise of its powers and discretions under these Conditions, the Trust Deed and the Keepwell Deed, the Trustee will have regard to the interests of the Bondholders as a class and will not be responsible for any consequence for individual Holders of Bonds as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Bonds, the Agents act solely as agents of the Issuer, the Bank and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Bank reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer shall at all times maintain a principal paying agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Bondholders by the Issuer.

12. Meetings of Bondholders; Modification and Waiver

(a) *Meetings of Bondholders*: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including the modification of any provision of these Conditions, the Trust Deed, the Keepwell Deed or the Standby Letter of Credit. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee upon the request in writing of Bondholders holding not less than one-tenth of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented; **provided, however***, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Bonds, to reduce the amount of principal or interest payable on any date in respect of the Bonds, to alter the method of calculating the amount of any payment in respect of the Bonds or the date for any such payment, to modify any of Condition 1(c) (*Standby Letter of Credit*), Condition 1(d) (*Pre-funding*) or Condition 3 (*Covenants*), to change the currency of payments under the Bonds, to effect the exchange, conversion or substitution of the Bonds for other obligations or securities, to amend the terms of the Keepwell Deed, to modify or release the Standby Letter of Credit or the Keepwell Deed or to change the governing law of the Standby Letter of Credit (except as necessary to provide for the issuance of further Bonds in accordance with Condition 14 (*Further Issues*)) or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Bondholders holding not less than 90 per cent. of the aggregate principal amount of the Bonds outstanding who for the time being are entitled to receive notice of a meeting of Bondholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders or by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the Bondholders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Bondholders, agree to any modification of these Conditions, the Trust Deed, the Keepwell Deed or the Standby Letter of Credit (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Bondholders and to any modification of the Bonds, the Trust Deed, the Keepwell Deed or the Standby Letter of Credit which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Bondholders, authorise or waive any proposed breach or breach of the Bonds, the Trust Deed, the Keepwell Deed or the Standby Letter of Credit (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Bondholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be binding on the Bondholders and shall be notified by the Issuer to the Bondholders and the Rating Agency as soon as practicable thereafter.

(c) *Directions from Bondholders*: Notwithstanding anything to the contrary in these Conditions or the Trust Deed, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed, the Agency Agreement, the Keepwell Deed or the Standby Letter of Credit to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Bondholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

(d) *Certificates and Reports*: The Trustee may rely without liability to Bondholders on a report, advice, opinion, confirmation or certificate from any lawyers, valuers, accountants (including auditors and surveyors), financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, opinion or certificate or advice.

13. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such actions, steps or proceedings as it thinks fit to enforce its rights under the Trust Deed, the Keepwell Deed and the Standby Letter of Credit in respect of the Bonds, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one-quarter of the aggregate principal amount of the outstanding Bonds or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or pre-funded and/or provided with security to its satisfaction.

No Bondholder may proceed directly against the Issuer, the Bank or the LC Bank unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Further Issues

The Issuer may from time to time, without the consent of the Bondholders and in accordance with the Trust Deed, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest and the timing to perform and complete the NDRC Post-issue Filing) so as to form a single series with the Bonds. However, such further securities may only be issued if (i) the Rating Agency which has provided credit ratings in respect of the Bonds has been informed of such issue; (ii) such issue will not result in any adverse change in the then credit rating of the Bonds; (iii) a further or supplemental standby letter of credit is issued by the LC Bank (or an amendment is made to the Standby Letter of Credit) on terms that are substantially similar to the Standby Letter of Credit (including that the stated amount of such further or supplemental standby letter of credit is at least equal to the sum of the principal of and an amount equal to one interest payment due on such further securities up to the maturity date of such securities plus 30 days) and (iv) such supplemental documents are executed and further opinions are obtained as the Trustee may require, as further set out in the Trust Deed. References to the Standby Letter of Credit shall thereafter include such further standby letter of credit. The Issuer may from time to time create and issue other series of bonds having the benefit of the Trust Deed and the Keepwell Deed.

15. Notices

Notices to the Bondholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

Until such time as any individual Bond Certificates are issued and so long as the Global Bond Certificate is held in its entirety on behalf of Euroclear and Clearstream, any notice to the Bondholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

16. Currency Indemnity

If any sum due from the Issuer in respect of the Bonds or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Bonds, the Issuer shall indemnify the Trustee and each Bondholder, on the written demand of the Trustee or such Bondholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Trustee or such Bondholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. Governing Law and Jurisdiction

(a) *Governing law*: The Bonds, the Trust Deed and the Keepwell Deed and any non-contractual obligations arising out of or in connection with the Bonds, the Trust Deed and the Keepwell Deed are governed by English law.

(b) *Jurisdiction*: Each of the Issuer and the Bank has in the Trust Deed (i) agreed that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Bonds (including any non-contractual obligation arising out of or in connection with the Bonds); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) appointed BOSC International Company Limited (currently at 34/F, Champion Tower, 3 Garden Road, Central, Hong Kong) to accept service of any process on its behalf; (iv) consented to the enforcement of any judgment; and (v) to the extent that it may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Bond Certificate contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions of the Bonds set out in this Offering Circular. The following is a summary of certain of those provisions.

The Bonds will be represented by a Global Bond Certificate which will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear and Clearstream.

Under the Global Bond Certificate, the Issuer, for value received, will promise to pay such principal sum to the Holder on 10 September 2023 or on such earlier date or dates as the same may become payable in accordance with the Terms and Conditions of the Bonds, and to pay interest on such principal sum in arrears on the dates and at the rate specified in the Terms and Conditions of the Bonds, together with any additional amounts payable in accordance with the Terms and Conditions of the Bonds, all subject to and in accordance with the Terms and Conditions of the Bonds.

The Global Bond Certificate will become exchangeable in whole, but not in part, for duly authenticated and completed Individual Bond Certificates if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

Whenever the Global Bond Certificate is to be exchanged for Individual Bond Certificates, such Individual Bond Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Bond Certificate within five business days of the delivery, by or on behalf of the registered Bondholder of the Global Bond Certificate, Euroclear and/or Clearstream to the Registrar of such information as is required to complete and deliver such Individual Bond Certificates (including, without limitation, the names and addresses of the persons in whose names such Individual Bond Certificates are to be registered and the principal amount of each such person's holding, which shall be a denomination authorised in the Terms and Conditions of the Bonds) against the surrender of the Global Bond Certificate at the Specified Office (as defined in the Terms and Conditions of the Bonds) of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any Bondholder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Bond Certificate will contain provisions that modify the Terms and Conditions of the Bonds as they apply to the Bonds evidenced by the Global Bond Certificate. The following is a summary of certain of those provisions:

Payments on business days: In the case of all payments made in respect of the Global Bond Certificate "**business day**" means any day which is a day on which commercial banks are open for business (including dealings in foreign currencies) in the city in which the Registrar has its Specified Office.

Payment Record Date: Each payment in respect of the Global Bond Certificate will be made to the person shown as the Bondholder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which this Global Bond Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 5(c) (*Redemption for Change of Control*) (the "**Put Option**"), the Holder must, within the period specified in the Terms and Conditions of the Bonds for the deposit of the relevant Note Certificate and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Bonds in respect of which the Put Option is being exercised. Any such notice shall be irrevocable and may not be withdrawn.

Notices: Notwithstanding Condition 15 (*Notices*), so long as the Global Bond Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**"), notices to Bondholders represented by the Global Bond Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System.

DESCRIPTION OF THE KEEPWELL DEED

The following contains summaries of certain key provisions of the Keepwell Deed. Such statements do not purport to be complete and are qualified in their entirety by reference to the Keepwell Deed.

Under the Keepwell Deed, the Bank will undertake with the Issuer and the Trustee that the Issuer shall at all times remain a direct or indirect wholly-owned Subsidiary of the Bank, and the Bank shall have the right to vote for the appointment and removal of all members of the board of directors of the Issuer, whether directly or indirectly, and whether by ownership of share capital, the possession of voting rights or otherwise. The Bank will also undertake with the Issuer and the Trustee that it will not directly or indirectly pledge, grant a security interest, or in any way encumber or otherwise dispose of any shares of the Issuer.

In addition, the Bank will undertake to procure that so long as any Bond remains outstanding, the Issuer will not conduct any business activity whatsoever other than in connection with the issue of the Bonds or other Relevant Indebtedness (such activities in connection with the issue of the Bonds shall, for the avoidance of doubt, include the on-lending the proceeds of the Bonds or other Relevant Indebtedness to the Bank or any other member of the Group).

"**Relevant Indebtedness**" means any indebtedness incurred outside the PRC.

In addition, the Bank will undertake with the Issuer and the Trustee that it shall cause:

(a) the Issuer to have a Consolidated Net Worth of at least U.S.$1.00 (or its equivalent in any other currency) at all times;

(b) the Issuer to remain solvent and a going concern at all times under the laws of its jurisdiction of incorporation or applicable accounting standards; and

(c) the Issuer to have sufficient liquidity to make timely payment of any amounts payable by it under or in respect of the Bonds in accordance with the terms and conditions of the Bonds, the Trust Deed and/or the Agency Agreement, and that the Issuer to have sufficient funds to meet its obligations with respect to any and all fees, expenses and similar obligations of the Issuer, including but not limited to fees and expenses with respect to the corporate formation and administration of the Issuer.

"**Consolidated Net Worth**" means, the excess of total assets of the Issuer and its consolidated Subsidiaries (if any) over total liabilities of the Issuer and its consolidated Subsidiaries (if any), total assets and total liabilities each to be determined in accordance with PRC GAAP consistently applied.

Under the Keepwell Deed, if the Issuer at any time determines that it will have insufficient liquidity to meet its payment obligations as they fall due, then the Issuer shall notify the Bank of the shortfall as soon as practicable and the Bank will undertake to make available to the Issuer, before the due date of the relevant payment obligations, funds sufficient by means to the fullest extent permitted by applicable laws and regulations to enable the Issuer to ay such payment obligations in full as they fall due, *provided, however*, that the Bank shall not in any event be required to perform any part of the payment obligations under the Bonds in lieu of the Issuer. The Issuer shall use any funds made available to it by the Bank in accordance with this Deed solely for the payment when due of such payment obligations under the Bonds, the Trust Deed and the Agency Agreement.

For so long as any Bond remains outstanding, the Bank will undertake in the Keepwell Deed:

(a) not to amend its articles of association in a manner that is, directly or indirectly, adverse to Bondholders;

(b) to procure that the memorandum and articles of association of the Issuer shall not be amended in a manner that is, directly or indirectly, adverse to Bondholders;

(c) to cause the Issuer to remain in full compliance with the terms and conditions of the Bonds and the Trust Deed and all applicable rules and regulations in the British Virgin Islands, PRC and England with respect to the Bonds;

(d) promptly to take any and all action necessary to comply with its obligations under the Keepwell Deed, the Bonds, the Trust Deed and the Agency Agreement;

(e) to cause the Issuer to take all action necessary in a timely manner to comply with its obligations under the Keepwell Deed, the Bonds and the Trust Deed;

(f) to procure that the Issuer shall either utilise the proceeds of the issue of the Bonds (the "**Proceeds of the Bonds**") for itself or on-lend such proceeds only to BOSC International Company Limited or any of its Subsidiaries (each a "**Group Borrower**"), and cause such Group Borrower to pay the interest and principal in respect of such intercompany loan on time; and

(g) that it will not, and procure that the Issuer will not, commence any action for the winding up, liquidation or dissolution of the Issuer.

The Keepwell Deed may be modified, amended or terminated by the written agreement of the Bank, the Issuer and the Trustee *provided that* such modification, amendment or termination shall not have any adverse effect upon the ability of the Issuer to meet its obligations under the Bonds and the Trust Deed. The Issuer will undertake in the Keepwell Deed to promptly notify the Bondholders of any modification, amendment or termination of the Keepwell Deed.

The Keepwell Deed is not, and nothing therein contained and nothing done pursuant thereto by the Bank shall be deemed to constitute, or shall be construed as, or shall be deemed an evidence of, a guarantee by or any similar legally binding obligation of the Bank of the payment of any obligation, indebtedness or liability, of any kind or character whatsoever, of the Issuer under the laws of any jurisdiction.

The Keepwell Deed and any non-contractual obligations arising out of or in connection with it will be governed by English law. The courts of Hong Kong shall have exclusive jurisdiction to settle any dispute, arising out of or in connection with the Keepwell Deed (including a dispute relating to the existence, validity or termination of the Keepwell Deed) or the consequences of its nullity and accordingly any legal action or proceedings arising out of or in connection with the Keepwell Deed may be brought in such courts.

USE OF PROCEEDS

The gross proceeds from the offering of the Bonds is U.S.$299.964 million. The net proceeds of this issue, after deduction of the combined management and underwriting commission and the other expenses incurred in connection with the issue of the Bonds, will be used for (i) its offshore indebtedness refinancing, including but not limited to the refinancing of the U.S.$500,000,000 3.125% credit enhanced bonds due 2021 issued by BOSC International (BVI) Limited on 18 January 2018, and (ii) its offshore business operation in a manner permitted under applicable PRC laws and regulations, including but not limited to applicable rules and guidance issued by NDRC, SAFE and PBOC.

EXCHANGE RATES

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2 per cent. against the US dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, the PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the US dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the US dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0 per cent. On 16 April 2012. These changes in currency policy resulted in the Renminbi appreciating against the US dollar by approximately 26.9 per cent. from 21 July 2005 to 31 December 2013. On 14 March 2014, the PBOC further widened the floating band against the US dollar to 2.0 per cent. On 11 August 2015, PBOC announced to improve the central parity quotations of Renminbi against the US dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market 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. Following the announcement by the PBOC on 11 August 2015, Renminbi depreciated significantly against the US dollar. In January and February 2016, Renminbi experienced further fluctuation in value against the US dollar. Following the gradual appreciation against US dollar in 2017, Renminbi experienced a recent depreciation in value against US dollar followed by fluctuation in 2018 and early 2019. On 5 August 2019, the PBOC set the Renminbi's daily reference rate above 7 per US dollar for the first time in over a decade amidst an uncertain global and economic backdrop. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. The following table sets forth information concerning exchange rates between the Renminbi and the US dollar for the periods presented:

	Renminbi per US Dollar Noon Buying Rate[(1)]			
Period	**End**	**Average[(2)]**	**High**	**Low**
	(RMB per US$1.00)			
2015	6.4778	6.2869	6.4896	6.1870
2016	6.5752	6.5726	6.5932	6.5219
2017	6.5063	6.7350	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020				
February	6.9906	6.9967	7.0286	6.9650
March	7.0808	7.0205	7.1099	6.9244
April	7.0622	7.0708	7.0989	7.0341
May	7.1348	7.1016	7.1681	7.0622
June	7.0651	7.0816	7.1263	7.0575
July	6.9744	7.0041	7.0703	6.9744
August (through 21 August)	6.9179	6.9432	6.9799	6.9143

Notes:

(1) Exchange rates between Renminbi and US dollar represent the noon buying rates as set forth in the H10 statistical release of the Federal Reserve Board.

(2) Annual and semi-annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the actual consolidated indebtedness and capitalisation of the Bank as of 30 June 2020 and as adjusted to give effect to the issuance of the Bonds before deducting the underwriting discounts and commissions and other estimated expenses relating to this offering payable by the Bank.

Investors should read this table in conjunction with the Bank's consolidated financial information as of and for the year ended 30 June 2020 included elsewhere in this Offering Circular.

	As of 30 June 2020			
	Actual		As Adjusted	
	(RMB in million) *(unaudited)*	(US$ in million)[1] *(unaudited)*	(RMB in million) *(unaudited)*	(US$ in million)[1] *(unaudited)*
Debt				
Debt securities issued	177,938	25,185	177,938	25,185
The Bonds to be issued [1]	–	–	2,119	300
Total debt	**177,938**	**25,185**	**180,057**	**25,485**
Equity				
Share capital	14,206	2,011	14,206	2,011
Other equity instruments	19,957	2,825	19,957	2,825
Capital reserve	22,053	3,121	22,053	3,121
Other comprehensive income	4,341	614	4,341	614
Surplus reserves	42,256	5,981	42,256	5,981
General reserve	31,454	4,452	31,454	4,452
Retained earnings	48,381	6,848	48,381	6,848
Total equity attributable to equity shareholders of the Bank	182,648	25,852	182,648	25,852
Non-controlling interests	528	75	528	75
Total equity	**183,176**	**25,927**	**183,176**	**25,927**
Total capitalisation [2]	**361,114**	**51,112**	**363,233**	**51,412**

Notes:

(1) U.S. dollar translations are provided for indicative purposes only. These translations were calculated based on an exchange rate of RMB7.0651 to U.S.$1.00 on 30 June 2020 as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Total capitalisation equals the sum of total debt and total equity.

There has not been any material change in the capitalisation of the Bank since 30 June 2020.

DESCRIPTION OF THE ISSUER

History and Introduction

The Issuer was incorporated under the laws of the British Virgin Islands with limited liability on 28 May 2020. As of the date of this Offering Circular, the Issuer is authorised under its memorandum of association to issue a maximum of 50,000 shares of no par value and one share has been issued and is outstanding. The Issuer is the Bank's indirect wholly-owned subsidiary and, as of the date of this Offering Circular, has carried on no business other than entering into arrangements for the issue of the Bonds. As of the date of this Offering Circular, the Issuer has no outstanding borrowings and has no contingent liabilities other than the issue of the Bonds. The Issuer is not required under the laws of British Virgin Islands to file, and does not propose to file, any of its interim or annual accounts.

As of the date of this Offering Circular, the Issuer has no subsidiaries.

Management

The directors of the Issuer as of the date of this Offering Circular are CHAN Ho Sun Sunny and MA Yijia.

The registered office of the Issuer is situated at Unit 8, 3/F., Qwomar Trading Complex, Blackburne Road, Port Purcell, Road Town, Tortola, British Virgin Islands VG1110.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is a leading City Commercial Bank in China with the majority of its operations concentrated in Shanghai. The Bank is well positioned to benefit from the developed economic environment of Shanghai and the advantages derived from Shanghai's development into an international financial centre. As one of the first batch of City Commercial Banks established in China, the Bank has built a solid business foundation and customer base over its approximately 25 years of development. As of 30 June 2020, the Bank's total assets, total loans and advances to customers and total deposits were RMB2,388.2 billion, RMB1,028.9 billion and RMB1,284.1 billion, respectively. The Bank was listed on the Shanghai Stock Exchange (stock code: 601229) in November 2016.

The Bank has a broad customer base and excellent brand image. As of 30 June 2020, the Bank had approximately 17.05 million personal customers and approximately 230,100 corporate customers. The Bank was ranked the 73rd and 84th in terms of tier-one capital and total assets, respectively, on the list of Top 1000 World Banks（全球銀行1000強）published in 2020 by *The Banker*, up 102 positions from 2012. The Bank was ranked the 83rd on the list of Top 500 Most Valuable Banking Brands（全球銀行品牌價值500強）in 2020 by *Brand Finance*.

The Bank has established a comprehensive network of distribution channels. As of 30 June 2020, the Bank had a total of 318 branches and outlets nationwide (including its head office, its credit card centre and small business financial services centre), 228 of which were located in Shanghai. The Bank has also established a number of branches and sub-branches in other cities including Beijing, Shenzhen, Hangzhou, Nanjing, Tianjin, Chengdu, Ningbo and Suzhou. In addition, as of 30 June 2020, the Bank had 415 self-service banking stations as well as a variety of electronic banking channels, including internet banking, mobile banking, WeChat banking and phone banking. BOS Hong Kong, the wholly-owned subsidiary of the Bank, commenced its business in June 2013, which has further developed its cross-border corporate banking business including loans, syndicate loans, trade finance, cash management and treasury business. BOSC International, the wholly-owned subsidiary of BOS Hong Kong, commenced its business operations in January 2015, engaging in a full scale of investment banking businesses including fixed income, asset management, securities brokerage, direct investment, and financial and investment advisory.

Leveraging its customer base, brand recognition and distribution channels, the Bank has developed its special advantages in a number of business areas over the past years. The Bank is one of the first commercial banks in China positioned to provide banking services to SMEs. The Bank also provides a broad range of financial products and services to government agencies and, in particular, the Bank has close relationships with many financial bureaus in Shanghai and is one of Shanghai's leading banks in serving social security funds and medical insurance funds. Moreover, the Bank has obtained a wide array of qualifications and has an extensive presence in various areas of treasury business.

The Bank's financial performance and strengths have steadily developed over the past years. As of 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's total assets amounted to RMB1,807.8 billion, RMB2,027.8 billion, RMB2,237.1 billion and RMB2,388.2 billion, respectively, and its total loans and advances to customers amounted to RMB664.0 billion, RMB850.7 billion, RMB972.5 billion and RMB1,028.9 billion, respectively. For the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, the Bank's net profit for the period amounted to RMB15.3 billion, RMB18.1 billion, RMB20.3 billion, RMB10.7 billion and RMB11.1 billion, respectively.

COMPETITIVE STRENGTHS

The Bank believes that its competitive strengths outlined below are important to its success and future development:

Uniquely Positioned to Benefit from the Regional Advantages of Shanghai

The Bank is well positioned to benefit from the developed economic environment of Shanghai and the advantages derived from Shanghai's development into an international financial centre. Headquartered in Shanghai, the Bank has built a solid business foundation and customer base over its approximately 25 years of development in Shanghai. Being based in Shanghai, one of the most important financial centres in China and home to a highly developed financial market where the Bank has built a well-renowned brand name and reputation, the Bank has significant opportunities to expand its customer base and diversify its services to secure sustainable revenue growth. After years of development, Shanghai has become a financial centre composed of markets for a broad spectrum of major financial products such as the money market, bond market, stock market, derivatives market and gold market. In addition, the Chinese government intends to continue to support Shanghai in its development into a global centre for trading, pricing and clearing of RMB-denominated financial products as outlined in a state strategic plan. The development of Shanghai into an international financial centre has facilitated the strategic transformation of the Bank's business model to a transaction-driven one. The advantages of the Bank's Shanghai-based location include but not limited to facilitating its business activities in the financial markets and trading platforms, as well as enabling it to transcend geographic operating restrictions to achieve fast growth. The Bank is competitive in the deposit and loan markets of Shanghai. It ranked the 3rd in terms of balance of RMB-denominated corporate deposits as of 31 December 2019 among all Chinese commercial banks in Shanghai.

The vigorous development of SMEs in the Yangtze River Delta region including Shanghai has presented the Bank with significant opportunities to further expand its financial services to SMEs. Besides, the Yangtze River Delta region including Shanghai has China's largest concentration of high net worth individuals where overall income and consumption levels are significantly higher than the national average, which brings opportunities for the rapid development of the Bank's medium- to high-end retail financial businesses, especially in wealth management and personal loans for consumption purposes.

Leveraging its strong foothold in Shanghai, the Bank has established a distinguished Shanghai-Hong Kong-Taiwan Financial Services Platform with SCB in Hong Kong and SCSB in Taiwan since 2000. The cooperation has extended to various business areas including mutual referrals of customers, product innovation, experience sharing and personnel training. The Bank was the first mover among Chinese banks in various areas of cross-strait banking cooperation – (i) the first Chinese bank with a business unit specialising in serving enterprises with investments from Hong Kong and Taiwan enterprises; (ii) the first bank with direct and indirect equity investments from banks in Hong Kong and Taiwan; (iii) the first bank to establish single marketing brand of banking services shared by banks from Shanghai, Hong Kong and Taiwan. The three banks agreed to deepen cooperation in the areas of corporate banking, retail financial business, services to financial institutions, distribution channel, and middle and back office support. Taking advantage of the Shanghai-Hong Kong-Taiwan Financial Services Platform, the Bank was competent in offering syndicate loans, corporate banking and retail financial business, services to customers from and/or with investments from Hong Kong and Taiwan; and (iv) the sole City Commercial Bank in China that has a wholly-owned overseas investment banking platform with licenses to carry out Type 1, Type 4, Type 6 and Type 9 regulated activities as set out in Schedule 5 to the Securities and Futures Ordinance of Hong Kong.

Prudent Quantitative Risk Management and Sound Asset Quality

The Bank's business is primarily based in Shanghai with a generally benign financial environment, healthy social credit system and a prudent and steady risk management culture. It manages its risks by achieving a balance between risk and return. It simultaneously cultivates sustainable growth and enhances asset quality in order to obtain reasonable risk-adjusted returns. As a result of its reorganisation, the Bank has improved accountability on risk management through its "Three Lines of Defence" system, which increased the risk management responsibilities of the front-line business departments while improving the independence and effectiveness of the departments at the second and third lines. For more information on its "Three Lines of Defence" risk management system, see "*Risk Management – Risk Management Structure – Three Lines of Defence Risk Management in the Head Office*".

The Bank has also established a prudent system of vertical monitoring by the Head Office on risk management of its branches and credit approval and internal audit systems. Furthermore, the Bank has applied various advanced risk management instruments such as operational risk control self-assessment and a key risk indicator system for operational risks in order to enhance its risk management capabilities. Additionally, based on the respective conditions and management capabilities of each branch, the Bank has proposed differentiated requirements for managing and controlling risks under its "one branch, one strategy" policy.

With respect to credit risk management, the Bank strengthened comprehensive management throughout its credit approval process. It has enhanced its abilities to identify, assess, control and mitigate risks. It has also implemented the "credit management scorecard"(信貸管理記分器) which further strengthened its credit approval processes as well as its loan portfolio management. Furthermore, the Bank has improved its post-disbursement management and evaluation mechanisms and, with respect to nonperforming loans, increased its dissolution, collection and write-off efforts. It is also increasing prevention efforts to risks arising from its principal businesses and strengthening the credit risk management and the control of loans extended to related parties, industries of excess capacity, government financing vehicles, real estate industries as well as off balance sheet businesses. As such, risks relating to key industries are under effective control.

Furthermore, the Bank has established a comprehensive risk management system that fully covers its business areas and operational procedures. It incorporates all group-level subsidiaries into a unified risk management framework and implements various risk management mechanisms covering all procedures of its credit business. To further enhance its comprehensive risk management system, the Bank has built an artificial intelligent risk management platform named "Magical Mirror" to automatically filter high-risk corporate customers and send notifications for credit approvers to identify such clients. In addition, the Bank has formed an unified data management and evaluation system for retail customers to prevent fraud through its online anti-fraud management system, especially the car loan customers. The Bank also focuses on systematic risk management in key areas and develops an online collateral information system to manage collaterals with standardised operational procedures. The Bank also launches phase II of the STP system to evaluate its risk tolerance capability and improves its internal control system to supervise operational risks. With continuous improvement in risk managing tools, procedures, and supervision mechanism, the Bank has substantially established a comprehensive management risk system and improved on its big-data analysis and risk-warning capabilities. Leveraging the advantages of data analysis, model supervision and software upgrade, the Bank is able to build a quantitative management and warning system model to complete its digital transformation in risk management and develop innovative financial products. The Bank's prudent risk management has enabled it to maintain solid asset quality. As of 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's allowance to non-performing loans were 272.52 per cent., 332.95 per cent., 337.15 per cent. and 330.61 per cent., respectively. As of 30 June 2020, the Bank's non-performing loan was RMB12.2 billion, and its non-performing loan ratio was 1.19 per cent. which was lower than the average non-performing loan ratio of 1.94 per cent. of all PRC commercial banks reported by CBIRC.

Outstanding Strategic Management System and Strong Profitability

The Bank has continued to enhance its strategic management system and improve its operational efficiency. The Bank also completed the top-level design for digital transformation, cultivated and implanted digital thinking and invested more in scientific and technological resources. While speeding up scientific and technological development and establishing innovative organization models, the Bank kept promoting the application of such new technologies as artificial intelligence and big data in customer marketing and service, risk control and featured businesses. In conjunction with the strategic transformation of its businesses, the Bank has continued to enhance its cost management capabilities.

It has efficiently controlled the growth of overall costs through total cost management, workflow optimisation, tight control over variable costs and centralised purchasing. Its cost-to-income ratio, defined as operating expenses excluding business tax and surcharges over operating income, declined from 24.47 per cent. in 2017 to 20.52 per cent. in 2018 and further decreased to 19.98 per cent. in 2019. In order to improve employee productivity, the Bank controlled the growth in total headcount while taking measures to optimise its organisational structure and enhance its sales and marketing capabilities. Therefore, the Bank obtained high profit per employee in 2019. At the same time, as a result of its rapidly growing electronic distribution channels and service capabilities, customer service costs of the Bank continued decreasing.

The Bank's profitability has steadily developed over the past years. For the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, the Bank's net interest margin were 1.38 per cent., 1.81 per cent., 1.93 per cent., 1.93 per cent., and 1.92 per cent., respectively. For the same periods, the Bank's net interest spread were 1.25 per cent., 1.76 per cent., 1.71 per cent. 1.69 per cent. and 1.77 per cent., respectively. For the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, the Bank's return on average net assets attributable to holders of ordinary shares of the Bank was 12.63 per cent., 12.67 per cent., 12.94 per cent. 14.62 per cent., and 13.69 per cent., respectively. For the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, the Bank's net profit for the periods amounted to RMB15.3 billion, RMB18.1 billion, RMB20.3 billion, RMB10.7 billion and RMB11.1 billion, respectively.

Extensive High Quality Customer Base and Comprehensive Multi-channel Distribution Network Providing Significant Growth Potential

Taking full advantage of the burgeoning economy in Shanghai and the Yangtze River Delta region, the Bank has an extensive and high quality corporate and retail customer base. As of 30 June 2020, the Bank had approximately 17.05 million personal customers and approximately 230,100 corporate customers. Benefiting from its large number of high-value customer base, the Bank's total loans and advances to customers accounted for 36.73 per cent., 41.95 per cent., 43.47 per cent. and 43.08 per cent., respectively, of its total assets as of 31 December 2017, 2018 and 2019 and 30 June 2020. As of the same dates, the Bank's deposits from customers accounted for 55.63 per cent., 55.87 per cent., 58.43 per cent. and 59.03 per cent., respectively, of its total liabilities.

The Bank has an extensive distribution network with Shanghai at the centre. The Bank also selectively expanded into other cities and regions across China. Its network is predominantly concentrated in more economically developed regions with higher income level including the Yangtze River Delta, the Pearl River Delta, the Bohai Rim and Central and Western China. As of 30 June 2020, the Bank had a total of 318 branches and outlets nationwide (including its head office, its credit card centre and small business financial services centre), 228 of which were located in Shanghai, and a number of branches and sub-branches were located in other cities including Beijing, Shenzhen, Hangzhou, Nanjing, Tianjin, Chengdu, Ningbo and Suzhou. The Bank has also established a multi-channel electronic banking service system which includes internet banking and phone banking, and an extensive self-service banking network equipped with various machines. As of 30 June 2020, the Bank had 415 self-service banking stations as well as a variety of electronic banking channels, including internet banking, mobile banking, WeChat banking and phone banking. BOS Hong Kong, the wholly-owned subsidiary of the Bank, commenced its business in June 2013, which has further developed its cross-border corporate banking business including loans, syndicate loans, trade finance, cash management and treasury business. The development of the Bank's cross-border corporate banking business was also strengthened by the establishment of the Shanghai-Hong Kong-Taiwan Financial Service Platform, cooperation with

Santander and establishment of Shanghai Free Trade Zone branch. Through successful integration of offshore subsidiaries and platforms, the profitability of BOS Hong Kong, BOSC International, BOSC Asset Management and Shangcheng Consumer Finance Company Limited had been improved.

An Integrated Banking Platform Providing Comprehensive Modern Financial Services and Synergy to Grow Business

The Bank believes that its established market position and strong brand awareness are to a large extent attributable to its capabilities to provide customers with diversified modern financial services. The Bank has a "Six Major Financial Services" system, which consists of supply chain finance, inclusive finance, technology and innovation finance, livelihood finance, cross-border finance and investment bank services, to meet its corporate customers' increasingly diversified needs for comprehensive financial services. The Bank improves its geographic layout by focusing on serving customers in key industries, including urban construction, manufacturing, science and technology in regions of Yangtze River Delta, Guangdong-Hong Kong-Macao Greater Bay, Beijing-Tianjin-Hebei and other regions.

While focusing on providing comprehensive financial services to its corporate banking customers, the Bank continuously improved its featured retail financial services and wealth management products to personal customers. As of 30 June 2020, the Bank's wealth management customers with average daily assets of the month under management over RMB1 million increased by 13.22 per cent., and the total amount of daily asset under management of such customers increased by 12.39 per cent. compared with the amount as of 31 December 2019. Leveraging its extensive experience in pension financial services, the Bank has also maintained its leading position in pension finance market in Shanghai.

Furthermore, the Bank has accelerated its development in internet finance to provide payment, settlement, wealth management, loan and cross-border services. The Bank has created a universal banking platform that enhance its capabilities to offer a broad range of financial services to customers. As of 30 June 2020, the Bank had approximately 4,536,200 personal internet banking customers and approximately 89,000 monthly active corporate internet banking customers. For the six months ended 30 June 2020, the Bank's total transaction conducted through internet amounted to approximately RMB2,550 billion. With its increased investment in technological innovation, the Bank continues to widen its application of cutting-edge technologies, such as artificial intelligence and big-data analytical tool, to its customer service, business development and risk management.

By operating as an integrated financial platform, the Bank believes that resources sharing among its different business segments and cross selling efforts have given and will continue to give the Bank opportunities to grow its business and improve its profitability.

Seasoned Senior Management with Strong Execution Capabilities

The senior management of the Bank has rich experience in banking and other financial industries, with key members possessing years of practice and management experience in leadership positions at domestic financial institutions. The Bank's management team also has strong capability and experience in macro-economic research, industrial and operation management, risk control and maintains close relationship with the government. Its senior managers have on average approximately 20 years of management experience in the financial industry. The Bank's chairman, Mr. Jin Yu, previously held the positions of general manager of the International Business Department at China Construction Bank, general manager of China Construction Bank Singapore Branch and Vice President of China Construction Bank Shanghai Branch.

With visions, insights, ambitions and professionalism, the senior management of the Bank is very efficient in decision-making and effective in the implementation of new strategies. They have formulated an overall strategy for the Bank and specific strategies for each of the Bank's departments and branches. To implement the Bank's strategic vision of becoming a boutique bank, they have focused on the retail banking business and explored the digital transformation of banking services. The Bank's excellent management team with strong execution capability has greatly facilitated the implementation of its strategy. In response to the changing market environment and the evolving customer demands, they completed the adjustment of the Bank's management framework and the optimisation of personnel structure of its head office and branches, and continued to hire strategic new talents. The improvement in the Bank's operational results have proven its senior management's outstanding management capabilities

Diversified Shareholding Structure and Strong Support from Substantial Shareholders

The Bank has a diversified and a stable shareholding structure. The Bank's shareholders consist of leading companies in various industries, including Shanghai Alliance Investment Company Limited (上海聯和投資有限公司), Shanghai International Port (Group) Company Limited (上海國際港務(集團)股份有限公司), Santander and TCL Corporation (TCL集團股份有限公司). The diversified shareholder base provides strong support for the Bank to effectively leverage its shareholders' strengths in corporate governance and business opportunities. With the Bank's top ten shareholders' in-depth knowledge of diversified industries, including financial investment, asset management, international trading and marine transportation, they are able to provide the Bank with opportunities in different industries. The Bank enjoys strong and consistent support from its substantial shareholders. For instance, the Bank fully leveraged strategic collaboration with shareholders and established a Free Trade Union Innovation Centre together with Shanghai International Port (Group) Company Limited and Santander in September 2019. With its shareholders' extensive experience in marine industry and cross-border finance, the Bank intends to develop its offshore trading services and marine finance business for enterprises in the Shanghai Free Trade Zone. As one of the financial platforms of the Shanghai municipal government, the Bank believes that it will be able to benefit substantially from and leverage the favourable conditions brought by Shanghai's development as a global financial centre to foster its long-term development. The substantial shareholders of the Bank support its investments in information technology, brand building and talent acquisition, laying a solid foundation for its long-term development.

BUSINESS STRATEGIES

The Bank's strategic goal is to become a boutique bank which offers professional services in excellent quality. Specifically, the boutique bank shall include the below elements:

- *Service*: to achieve product sophistication and professional services;
- *Management*: to achieve sophisticated management and efficient operation;
- *Financial*: to achieve steady growth in business and outstanding profits; and
- *Brand*: to achieve a reputable brand with integrity and excellence.

To achieve this goal, the Bank focuses on the development of the following areas:

To Advance and Accelerate Strategic Transformation and Enhance Business Sustainability

In response to the changing condition and strategic requirements, the Bank endeavours to solve its bottleneck and constrains and develops its competitive strengths by focusing on customer management, features formation, restructuring, comprehensive financial services and sophisticated management.

In order to facilitate the Bank's strategic transformation and enhance its ability in sustainable development, the Bank endeavours to:

- optimise its customer mix by retaining customers with high contributions and withdrawing high-risk customers;
- optimise its asset, liability and revenue structure by exploring active liability management model and increasing the composition of assets that generate highest revenues;

- facilitate the provision of integrated and comprehensive financial services by being customer centric and increasing service efficiency;

- provide innovative products, such as derivatives by exploring new segments such as leasing and trust and build synergies across segments; and

- strengthen the development of transaction-based and trading business by accelerating the exploration of currency, interest rate and precious metal related derivative products.

To Develop and Foster Featured Businesses in Order to Increase Market Competitiveness

In order to increase its competitive position in the market and exert greater influence in the industry, the Bank endeavours to develop and strengthen its position by developing featured business. In particular, for corporate banking business, the Bank enhances the features of transaction banking, cross-border banking, investment banking and custody banking, so as to become a comprehensive financial service provider with superior competitive strengths and brand advantage in regions where it operates; for retail banking, the Bank expands the consumer finance business and shapes itself as an expert in wealth management and pension finance; for financial market business, the Bank promotes organic transformation and development to become a leading transaction service provider; for internet finance business, the Bank works to create a unique online comprehensive finance service platform with apparent advantages. The Bank endeavours to develop and foster the following featured business:

Corporate finance and investment banking businesses

The Bank aims to target the development of core liability business of government-related customers, enhance the integrated finance capability of SMEs customers and explore industries such as culture and media, healthcare, education, aviation, transportation and environmental protection.

In particular, the Bank aims to become a comprehensive SME financial service provider. In order to increase the competitiveness of its SME financial services and the profit contribution of its SME business, the Bank endeavours to:

- optimise its customer management capabilities by further dividing its existing customer segments and, based on its existing product portfolio, enhancing its capabilities in providing comprehensive financial value-added services to customers in key industries (such as technology, green energy and cultural finance) and key customers (such as "Little Giant" enterprises and SME IPO candidates);

- focus on developing products that satisfy the needs of SMEs with respect to settlements, credit, value-added products and product portfolios;

- offer differentiated products and services by designing a multitude of standardised products that not only are compatible with mass marketing, but also cater to the needs of certain types of enterprises (such as Small and Micro Enterprises, asset-light enterprises or enterprises in culture industries) and local economies;

- advance its service quality and enhance pricing capabilities by adopting common pricing standards with standard prices and preferential prices determined based on borrower's business types and borrowing amount;

- standardise its management process and launch an express service to disburse loans to low-risk SMEs, thus increasing its service quality and approval efficiency; and

- promote cross-selling opportunities by integrating its SME business and retail business, advancing the establishment of small and micro enterprise-oriented sub-branches and continuing to train customer managers specialising in small and micro enterprise services.

With respect to its investment banking businesses, the Bank plans to establish geographic, product and service specialties, and attain a growth in investment banking operating income higher than its overall earnings growth. The Bank endeavours to:

- build core competencies in the area of customer management, project development, project selection and investment banking product innovation by improving the organisational structure of the investment banking department and implementing competitive and market-based performance evaluation and incentive mechanisms;
- expand businesses such as debt underwriting, origination of wealth management products, syndicate loans and financial advisory services;
- advance its marketing efforts by leveraging existing customer resources, increasing cross-selling with its traditional businesses, and encouraging collaborations between its head office and branches;
- form strategic alliances with domestic and overseas financial institutions; and
- establish a multi-levelled cooperative platform in order to become a specialised and leading provider of services to new institutions in China.

Retail finance and private banking businesses

The Bank aims to develop its retail finance and private banking businesses by focusing on consumer finance, wealth management and retirement-related financial services.

The Bank's goal is to become a wealth management specialist for families/individuals with medium-level income or above and establish a comprehensive service platform satisfying the needs of high-end customers. The Bank plans to promote the concept of AUM, in terms of managing client relationship, develop personalised products, and fully satisfy its existing customers' financial needs. As such, the Bank endeavours to:

- promote its "Huitong Wealth Management" brand through enhanced advertising;
- enhance its VIP customer service capabilities in all aspects by continuing to expand its professional wealth management consultant team, optimising its physical and electronic wealth management service channels and establishing support systems such as the customer relationship management system;
- advance its specialised private banking services by enhancing its account managers' capabilities to provide differentiated, specialised and integrated services;
- provide consultancy services to its private banking customers in "1+1+N" mode, namely, one client serviced by one personal wealth management consultant services, one designated investment consultant and various investment experts that provide investment consulting as well as middle and back office technology support;
- develop an open and diversified product platform by formulating key product lines including wealth management products and middle-income class financial products and providing customers with customised products and comprehensive financial services across borders and markets;
- restructure business segmentation and provide customised services by establishing a customer demand analysis system that further segments its high-end customers by implementing a multilayer service and expand its high-quality high-end customer base;

- continue to develop structured lending solution targeting its mid-to high-end customers, and reinforce its flexibility in product design and workflow differentiation; and
- establish strategic alliances with foreign financial institutions and commence strategic cooperation within several business aspects including service model, asset management, customer development, team building and management systems.

With the vision of becoming a retirement-related financial services expert in Shanghai, the Bank endeavours to:

- increase its service quality by providing pension service customers with a comprehensive "one stop" platform of pension financial services through the establishment of specialised facilities, financial services, as well as procedures and policies;
- strengthen the development of tailored products by establishing a financial product portfolio with a diverse array of conservative investment products that are exclusive to its pension service customers with the goal to improve product bundling; and
- broaden its customer base and marketing channels by expanding its high-quality customer base with a focus on the new pension recipients of government agencies, public institutions and large state-owned enterprises, and combine the marketing of its pension products with that of its other financial products such as phone banking, internet banking and third-party depositary.

Cross-border financial services

The Bank aims to build a premier Greater China financial services platform through the furtherance of its cooperation with SCB in Hong Kong and SCSB in Taiwan.

Leveraging its historical advantages in Hong Kong and Taiwan, the Bank plans to introduce tailored products targeting customers with Hong Kong and Taiwan backgrounds. The Bank also plans to proactively broaden and deepen its Shanghai-Hong Kong-Taiwan Financial Services Platform, thus expand the strength of its financial services offered to customers in target market segments. Specifically, the Bank endeavours to:

- leverage its strategic cooperative relationship in the Shanghai-Hong Kong-Taiwan region by integrating the resources of the three banks, advancing mutual customer referral, employing collaborative marketing, implementing specific marketing targeting its key corporate customers, promoting cooperation in business areas such as high-end customer retail financial business, credit cards and developing distribution channel sharing;
- establish a comprehensive system of cross-border financial products and services by continuing to drive innovation in specialty products and services relating to Hong Kong and Taiwan customers and increasing cooperation and innovation in inter-bank businesses;
- continue to solidify and deepen its relationships with Taiwan affairs offices at the various levels of government by further expanding its reach of cooperation with Hong Kong- and Taiwan-invested financial institutions as well as guarantee companies and leasing companies, and optimising its service platform for Hong Kong- and Taiwan- invested enterprises, therefore strengthening its market competence in the targeted market segments; and
- increase publicity efforts of its Hong Kong and Taiwan businesses by enhancing its brand awareness and image in the targeted market segments.

Financial and asset management businesses

The Bank endeavours to:

- increase its asset operational and product development capacity;
- further stabilise its position in trading currency, debenture, gold and interest rate related derivative products;
- strengthen the building of distribution network, improve marketing and sales capabilities and further facilitate the integration of financial market, asset management and traditional business;
- widen the sales and marketing capabilities of branches and develop third-party distribution channels and sales network;
- enhance its pricing management capabilities; and
- widen the coverage of intermediaries on financial market trading, clearing and settlement by fully utilising BOSC Asset Management as the platform.

To Advance Transformation of the Distribution Channel Base to Create Synergy

In order to create a well synergised distribution network, the Bank endeavours to:

- advance the transformation of branches and outlets to enhance the productivity;
- establish online direct selling banking;
- build up more powerful electronic banking channels to serve its existing customers, and expand its customer base with focuses on pension services, SMEs, non-financial payment service providers and e-commerce enterprise customers;
- improve its basic services, value-added services and online sales functions to enhance user experience, and continue to increase the penetration of internet banking among its customers and customer activity; and
- focus on both the convenience and security of its electronic banking system and accelerate the construction of the electronic banking risk monitoring platform.

To Promote its Overall Capabilities of Risk Management and Internal Control

The Bank plans to increase the accountability of employees of different levels by strengthening its risk management and internal control system. The Bank endeavours to:

- cultivate a sound risk culture through establishment of a proper evaluation and accountability system to ensure accountability and responsibility taking of employees;
- implement a risk management model which suits new industrial climate such as interest rate marketisation and internet finance;
- actively and steadily support innovation-driven development and adjust customer mix and business structure;
- strengthen its management of country risk and information technology risk in addition to credit risk, market risk, operational risk and liquidity risk;

- develop and apply risk measurement instruments and risk management information systems, cultivate professional teams and employ comprehensive management instruments and methods, such as risk-based pricing, economic value-added and risk-adjusted return on capital analysis, to strengthen capital management and guide business structural optimisation; and

- actively promote its meticulous management by enhancing process management, strengthening its differentiated management by using a list of key risks, key industries, key institutions, key businesses and key phases, refining its key risk indicators as well as advancing its quantitative management and limit management.

To Upgrade its Capital and Financial Management Capabilities

The Bank aims to increase its capital and financial management capabilities by optimising its asset and liability structure to increase profitability. The Bank endeavours to:

- optimise the multi-channel capital replenishment mechanism to meet the regulatory requirement of capital adequacy ratio and the need for growth;

- optimise asset allocation, economise capital consumption and accurately control all types of risks by implementing a comprehensive indicator system with focus on risk-adjusted profit, which is also linked to the compensation;

- advance its management and accounting system to better capture and analyse the income and expenditure from products, customers, channels, staff and departments; and

- strengthen assets liability management by increasing the proportion of stable, low-cost core liabilities, controlling funding costs and implementing differentiated pricing of deposit interest rates, improving its net interest margin and achieving a dynamic balance between risks and returns.

To Strengthen Core Competitiveness in Information Technology

The Bank also plans to improve its IT governance, promote its own development capabilities, implement meticulous and standardised management and optimise its IT platform. The Bank endeavours to:

- promote the application of emerging technologies such as internet finance and mobile payment;

- improve its IT governance, refine its technology management system and mechanisms and enhance its IT leadership abilities;

- enhance the technological support for business development and operation;

- focus on fundamental data management and build up the automatic database;

- build automatic and energy-saving data centres;

- increase the proportion of self-developed technologies used for its business and enhancing its capabilities to be responsive to customers and the market rapidly; and

- implement meticulous and standardised management, perfect the measures taken for the development, testing, operation and maintenance management and promote its IT service capabilities.

To Optimise Management System and Improve Human Resources Capabilities

The Bank endeavours to improve management capabilities through improving management style and optimising human resource structure. The Bank endeavours to:

- improve governance system and organisational structure to enhance management capabilities;
- optimise manpower allocation to advance structure alignment;
- cultivate a workforce of talented professionals with appropriate scale, rational composition and top-notch efficiency, and provide them with robust human resources support;
- improve its performance evaluation system, increase the importance of quantitative indicators, formulate key performance indicators to business units in accordance with each of its own specialties;
- improve its incentive mechanism, establish differentiated evaluation and incentive system that closely link compensation to performance, adjust compensation structure by achieving a balance between the fixed and variable components and short-term and mid-to long-term incentives;
- proactively recruit superior talents with previous experiences to fulfil key departments and core positions; and
- optimise its employee composition as a powerful force for its business growth by intensifying its training efforts, broadening and enriching its training modules and improving training and evaluation system.

RECENT DEVELOPMENTS

Resignation of the Bank's President

Mr. Hu Youlian resigned from the Bank's vice board chairman, executive director, president and all other duties in the Bank. The resignation is effective from 31 August 2020. Mr. Zhu Jian, the vice secretary of the Bank's party committee, is proposed to be nominated as the Bank's president. The engagement is subject to the approval of the Board of Directors of the Bank. Mr. Zhu's qualification serving as the Bank's president is subject to the approval of the CBIRC or its local bureau.

The Bank's Unaudited Interim Financial Statement

As a company listed on the Shanghai Stock Exchange in accordance with the listing requirements, the Bank published its Interim Financial Statement on 21 August 2020. The Bank's interim consolidated financial information as of and for the six months ended 30 June 2019 and 2020 contained in this Offering Circular are derived from the Bank's interim consolidated financial statement for the six months ended 30 June 2020 (which includes the comparative financial information as at and for the six months ended 30 June 2019, the "**Interim Financial Statement**"). The Interim Financial Statement was prepared in conformity with PRC GAAP and reviewed by PricewaterhouseCoopers Zhong Tian LLP. The Interim Financial Statement has not been subject to an audit and consequently, should not be relied upon by investors to give the same quality of information associated with information that has been subject to an audit. In addition, the Interim Financial Statement should not be taken as an indication for the expected financial condition, results of operations and cash flows for the full financial year ending 31 December 2020.

The Interim Financial Statement, published in Chinese on the Bank's website at http://www.bosc.cn/jfimg/colimg/shyh/zh/tzzgx/tzzgx_dqbg/2020-35/136450.pdf from page 89 to page 233, are incorporated by reference in this Offering Circular, and is considered to be a part of this Offering Circular. The Interim Financial Statement incorporated by reference is current only as of the date of such document, and the incorporation by reference of such document shall not create any implication that there has been no change in the Bank's affairs since the date thereof or that the information contained therein is current as of any time subsequent to its date.

Investors should note that the Interim Financial Statement is only available in Chinese and has not been translated into English. Investors should endeavour to take the necessary steps to review (including to engage professional advisers to assist with reviewing) the Interim Financial Statement in making their investment decision in the Bonds. See "*Summary Historical Financial Information*" for more information.

Results of Operation for the Six Months Ended 30 June 2019 and 2020

The Bank's operating income increased by 1.04 per cent. from RMB25.2 billion for the six months ended 30 June 2019, to RMB25.4 billion for the six months ended 30 June 2020, primarily due to the increase in net interest income and net fee and commission income. The Bank's net interest income increased by 19.26 per cent. from RMB14.3 billion for the six months ended 30 June 2019, to RMB17.0 billion for the six months ended 30 June 2020. The Bank's net fee and commission income increased by 8.36 per cent. from RMB3.4 billion for the six months ended 30 June 2019, to RMB3.7 billion for the six months ended 30 June 2020, primarily due to an increase in the fees and commissions generated from wealth management, fund management and debt underwriting services.

The Bank's operating expenses increased by 0.6 per cent. from RMB13.1 billion for the six months ended 30 June 2019, to RMB13.2 billion for the six months ended 30 June 2020, primarily due to an increase in credit losses as a result of increase in loans and advances to customers and financial assets held under resale agreements.

The Bank's operating profit increased by 1.5 per cent. from RMB12.0 billion for the six months ended 30 June 2019, to RMB12.2 billion for the six months ended 30 June 2020. The Bank's net profit increased by 3.8 per cent. from RMB10.7 billion for the six months ended 30 June 2019, to RMB11.1 billion for the six months ended 30 June 2020. The Bank's net profit attributable to equity shareholders of the Bank increased by 3.9 per cent. from RMB10.7 billion for the six months ended 30 June 2019, to RMB11.1 billion for the six months ended 30 June 2020.

Balance Sheet

The Bank's total assets increased from RMB2,237.1 billion as of 31 December 2019, to RMB2,388.2 billion as of 30 June 2020, primarily attributable to an increase in total loans and advances to customers. The Bank's total loans and advances to customers increased from RMB972.5 billion as of 31 December 2019, to RMB1,028.9 billion as of 30 June 2020, primarily attributable to an increase in loans and advances to corporate customers as a result of the Bank's continuous efforts to develop its business. The following table sets forth the distribution of loans by the five-category classification as of the relevant dates:

	As of 31 December 2019	**As of 30 June 2020**
	(RMB'000)	**(RMB'000)**
Normal loans	**961,251,527**	**1,016,652,388**
Normal	942,971,903	996,603,704
Special mention	18,279,624	20,048,684
Non-performing loans	**11,253,151**	**12,212,698**
Substandard	3,169,614	4,936,280
Doubtful	7,287,294	2,088,730
Loss	796,243	5,187,688
Total loans and advances to customers	**972,504,678**	**1,028,865,086**

The Bank's deposits from customers increased from RMB1,203.5 billion as of 31 December 2019 to RMB1,301.7 billion as of 30 June 2020. The Bank's deposits from banks and other financial institutions increased from RMB394.6 billion as of 31 December 2019 to RMB417.9 billion as of 30 June 2020.

Liquidity and Other Accounting Data

The following table sets forth certain key liquidity risk indicators disclosed in accordance with the regulatory requirements as of the relevant dates:

	As of 31 December 2019	**As of 30 June 2020**
Liquidity ratio (per cent.)	61.59	88.64
Liquidity coverage ratio (per cent.)	129.66	178.25
Loan to deposit ratio (per cent.)	81.89	79.24
Loans to the largest single borrower (per cent.) [(1)]	8.56	9.65
Loans to the top 10 borrowers (per cent.) [(2)]	32.38	33.72
Net funding Ratio (per cent.)	109.31	109.17

Notes:

(1) Loans to the largest single borrower means balance of loans to the largest single borrower divided by net capital.

(2) Loans to the top 10 borrowers means the total balance of loans to the top 10 borrowers divided by net capital.

The following tables set forth certain accounting data and financial indicators as of the relevant dates:

	For the six months ended 30 June	
	2019	**2020**
Basic earnings per share (RMB)	0.75	0.78
Net cash flow from operating activities per share (RMB)	3.59	5.04

	As of 31 December 2019	**As of 30 June 2020**
Net cash per share attributable to holders of ordinary shares of the Bank (RMB)	11.03	11.45

The Recent Novel Coronavirus Outbreak

In December 2019, an outbreak of COVID-19 was first reported in Wuhan, Hubei province, the PRC and has since been reported in numerous other countries globally. Travel restrictions were imposed in relation to several cities in the PRC as well as in other countries in an effort to curb the spread of COVID-19. The outbreak of COVID-19 outbreak poses potential risks to the Bank's business, results of operations, financial condition. See "*Risks Relating to the Bank's Business – Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in China, including the recent COVID-19 pandemic, may have a material adverse effect on the Bank's business operations, financial conditions and results of operations" for more information*. In the first quarter of 2020, the domestic interest rates and exchange rates were volatile, which may impose uncertainties to the Bank's business operation.

Since the outbreak of COVID-19, the Bank has been actively taken comprehensive mitigating measures to provide various financial services and credit support for enterprises and individual customers. The Bank facilitates the pandemic prevention and control by increasing its credit support in key industries. As of 30 June 2020, the Bank's total assets were RMB2,388.2 billion, an increase of 6.76 per cent. compared to RMB2,237.1 billion as of 31 December 2019. As of 30 June 2020, the total loans and advances to customers reached RMB1,028.9 billion, an increase of 5.80 per cent. compared to RMB972.5 billion as of 31 December 2019.

The Bank also strengthens its in-depth integration of product innovation, customer marketing and distribution channel management to broaden its source of deposits. As of 30 June 2020, the Bank's total deposits from customers were RMB1,284.1 billion, an increase of 8.27 per cent. compared to RMB1,186.1 billion as of 31 December 2019. Due to the proactive measures taken, the Bank believes that there is no material adverse impact to its business, results of operations, financial condition and prospects in 2020.

Approval for the Issue of RMB20 billion Convertible Bonds in the PRC

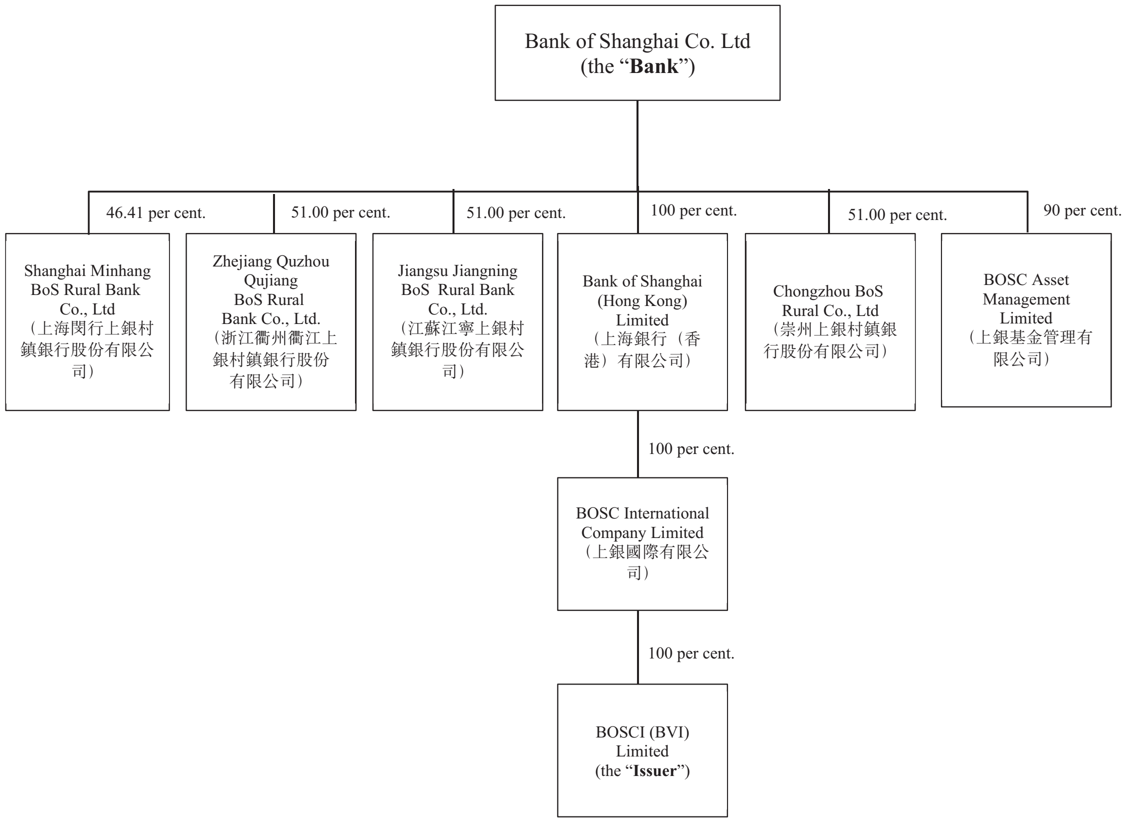
On 25 October 2019, the Board of Directors of the Bank passed the resolution for its proposed issue of convertible bonds with a total amount up to RMB20 billion. On 12 December 2019, the shareholders of the Bank approved the relevant proposed issuance. Further, the Bank received the approval from CBIRC Shanghai Bureau for the proposed offering on 16 May 2020. The proposed convertible bonds has a term of six years and is convertible into A shares of the Bank. The price and terms will be determined by the Board of Directors by the time of issuance. As at the date of this Offering Circular, the Bank has not issued any convertible bonds or entered into any transaction documents in connection with the issuance of convertible bonds.

Investment in Green Development Fund

On 17 July 2020, the Bank entered into the Shareholders' Agreement with National Green Development Fund Co. Ltd.（國家綠色發展基金股份有限公司）, pursuant to which the Bank agreed to subscribe for approximately 2.26 per cent. of the equity interests in the green development fund corporation to be established, for consideration of RMB2 billion. According to the Shareholders' Agreement, the subscription amount will be paid in instalments within five years after establishment. This investment is key to the Bank's strategic development in green finance industry.

GROUP STRUCTURE

The following chart sets forth the simplified group structure of the Bank as of 30 June 2020:



HISTORY AND DEVELOPMENT

The Bank is one of the first batch of City Commercial Banks incorporated in China. In 1995, as one of the pilot cities in which the PBOC's initiative to reform the urban credit cooperatives nationwide was implemented, the Shanghai Municipal Government resolved to establish the Bank under the name of Shanghai City United Bank Ltd. (上海城市合作銀行) through the consolidation of 98 independently operated urban credit cooperatives in Shanghai and the Shanghai Urban Credit Cooperative Union (上海市城市信用合作社聯社), and submitted its application to the PBOC. On 28 December 1995, the PBOC granted its approval for its commencement of business. The Bank completed its incorporation registration at the relevant administration for industry and commerce under the name of Shanghai City United Bank Ltd. and commenced its business on 30 January 1996. On 16 July 1998, the Bank obtained the PBOC's approval to be renamed as Bank of Shanghai Co., Ltd. Since 2012, the Bank has formulated new administrative measures and adopted a strategy to position itself as a "boutique bank". The Bank has become a commercial bank with strong competitive edge.

Below sets forth the material developments and milestones in the Bank's history:

1995	The Bank commenced its business after obtaining approval PBOC on its incorporation.
1996	The Bank was incorporated as Shanghai City United Bank Ltd.
1998	The Bank changed its corporate name to Bank of Shanghai Co., Ltd. The Bank was one of the first banks to establish small and medium enterprise financial service centres to provide community financial services in China.
1999	The International Finance Corporation invested in the Bank and made it one of the first commercial banks in China with investment from an overseas financial institution.
2001	SCB and other banks invested in the Bank, and the unique Shanghai-Hong Kong-Taiwan Financial Services Platform in cooperation with SCB and SCSB was established.
2002	The Bank was one of the major promoters to initiate the establishment of national city commercial banks clearing centres.
	The Bank was one of the first City Commercial Banks to issue dual currency credit cards.
2006	The Bank received approval from the CBRC to establish its Ningbo branch, which made it one of the first City Commercial Banks to operate outside of its specified geographic area.
2011	China Jianyin Investment purchased all of the Bank's shares owned by the International Finance Corporation and replaced the International Finance Corporation as its then third largest shareholder.
2012	The Bank formulated a three-year development strategic plan for 2012 to 2014, and adopted the "boutique bank" strategy. The Bank restructured its organisation and established three regional head offices in Shanghai.

2013	Its subsidiary BOS Hong Kong commenced its business. Its subsidiary BOSC Asset Management was incorporated in Shanghai. The branch in Shanghai Free Trade Zone (the "**Zone**") commenced operation and the Bank was one of the first commercial banks allowed to operate in the Zone.
2014	Santander purchased all of the Bank's shares held by The Hongkong and Shanghai Banking Corporation Limited and became the Bank's second largest shareholder. SIPG participated in the Bank's capital increase and became its third largest shareholder. Its subsidiary BOSC International Company Limited was incorporated.
2016	In November 2016, the Bank was listed on the Shanghai Stock Exchange (stock code: 601229).
2017	The Bank was ranked the 89th in terms of total assets and the 85th in terms of tier one capital at 31 December 2016 on the list of Top 1000 World Banks（全球銀行1000強）published in 2017 by *The Banker*. Shanghai Shangcheng Consumer Finance Co., Ltd., a subsidiary of the Bank, was incorporated in August 2017.
2018	The Bank was awarded with the "Best Business Development in Syndicated Loans" and "Best Project" by China Banking Association. Moody's adjusted the long-term deposit rating of the Bank from "Baa3" to "Baa2".
2020	The Bank was awarded with the "Best Wealth Management Bank in China" and "Outstanding Contribution of City Commercial Bank" by China Banking Association. The Bank was ranked the 73rd and 84th in terms of tier-one capital and total assets respectively on the list of Top 1000 World Banks（全球銀行1000強）published in 2020 by *The Banker*.

DESCRIPTION OF THE BANK'S PRINCIPAL BUSINESSES

The Bank's principal businesses comprise of wholesale financial business, retail financial business and others. The Bank's operating income mainly comes from net interest income, fee and commission income and investment gains. The table below sets forth the contribution of each business segment to the Bank's operating income for the years indicated.

	For the year ended 31 December						For the six months ended 30 June			
	2017		2018		2019		2019		2020	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(in millions of RMB, except percentages)									
Wholesale Financial business	26,399	79.7	32,838	74.8	35,281	70.8	18,046	71.8	17,905	70.5
Retail Financial business	6,347	19.2	10,691	24.4	13,947	28.0	6,750	26.8	7,329	28.8
Others[(1)]	378	1.1	358	0.8	572	1.1	354	1.4	176	0.7
Total operating income	**33,124**	**100.0**	**43,887**	**100.0**	**49,800**	**100.0**	**25,151**	**100.0**	**25,412**	**100.0**

Note:

(1) Consists primarily of income generated from miscellaneous activities which are not attributable to any specific segment.

The following table sets forth, for the years indicated, the Bank's profit before tax by business segments.

	For the year ended 31 December						For the six months ended 30 June			
	2017		2018		2019		2019		2020	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(in millions of RMB, except percentages)									
Wholesale Financial business	12,842	79.9	14,758	76.7	17,029	76.1	9,383	77.8	11,029	90.0
Retail Financial business	2,976	18.5	4,237	22.0	5,169	23.1	2,415	20.0	1150	9.4
Others[(1)]	264	1.6	257	1.3	179	0.8	270	2.2	76	0.6
Profit before taxation	**16,082**	**100.0**	**19,252**	**100.0**	**22,377**	**100.0**	**12,068**	**100.0**	**12,255**	**100.0**

Note:

(1) Consists primarily of income and expenses generated from miscellaneous activities which are not attributable to any specific segment.

WHOLESALE FINANCIAL BUSINESS

Wholesale financial business is the Bank's major source of operating income and accounted for 79.7 per cent., 74.8 per cent., 70.8 per cent. 71.8 per cent. and 70.5 per cent., respectively, of its total operating income for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020. The Bank provides wholesale financial products and services to corporations, government agencies and financial institutions. Wholesale financial products and services provided by the Bank includes corporate loans, deposit products, trade financing, settlement services, investment banking, asset custody, interbank borrowing, repurchase transactions and other interbank business, financial market business and equity investment. The wholesale financial business of the Bank comprised corporate banking and treasury business.

Corporate Banking

The corporate banking business of the Bank consists primarily of RMB- or foreign currency-denominated corporate loans, discounted bills, corporate deposits as well as fee- and commission-based products and services including settlement services, cash management, investment banking, custody services, guarantee and loan commitment services, agency services, corporate wealth management services, foreign currency trading and foreign exchange services and agency trading of precious metal. Its corporate loans accounted for 67.3 per cent., 62.8 per cent., 60.0 per cent. and 59.5 per cent. of the Bank's total loans as of 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

Customer Base

As of 30 June 2020, the Bank had approximately 230,100 corporate customers. In addition to expanding its customer base, the Bank has focused on optimising its customer mix, enhancing customer quality and actively developing relationships with government agencies and public service institutions, its key company customers, SMEs and certain types of institutions that have emerged in China in recent years such as private equity funds, venture capital funds, third-party payment service providers and small-sum loan companies, which the Bank refers to as "New Institutions". The Bank provides various services to its New Institutions customers including asset custody, venture lending, provisions depositary and other value-added services. The Bank has maintained close and long-standing relationships with various government agencies and public service institutions in Shanghai at both municipal and district levels. The Bank provides deposit services and agency services to several government agencies in Shanghai in respect of collection of revenues and payment of expenditures.

The Bank's corporate customers are mostly located in economically developed regions such as the Yangtze River Delta, the Pearl River Delta and the Bohai Rim. As part of its client development strategy, the Bank focuses on industries that are important to and will benefit from China's national policy of supporting industrial upgrades, consumption upgrades and the building of social security networks. As of 30 June 2020, the Bank's major corporate loan customers were concentrated in (i) real estate, (ii) leasing and commercial services, (iii), manufacturing (iv) public utilities and (v) wholesale and retail trade industries, each accounting for 14.47 per cent., 15.68 per cent., 6.94 per cent., 5.11 per cent. and 5.21 per cent., respectively, of the Bank's total loans and advances to customers outstanding.

Major Products and Services

Corporate Loans

Corporate loans have historically constituted the largest component of the Bank's loan portfolio. The Bank's corporate loans and advances (including both RMB- and foreign currency-denominated loans) outstanding amounted to RMB446.6 billion, RMB534.3 billion, RMB583.8 billion and RMB612.1 billion as of 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, accounting for 67.3 per cent., 62.8 per cent., 60.0 per cent. and 59.5 per cent., respectively, of the Bank's total loan portfolio. Its corporate loans are divided into working capital loans and fixed asset loans. The Bank generally requires collateral or guarantee for corporate loans and provide unsecured loans only to customers that the Bank deems credit-worthy.

The Bank's operates a "Six Major Financial Services" system and provides corporate loans services including supply chain finance, inclusive finance, technology and innovation finance, livelihood finance, cross-border finance and investment bank services, to meet its corporate customers' increasingly diversified needs for comprehensive financial services.

Supply Chain Finance

The Bank provides supply chain financial services through its "BOS e-Chain" platform to provide universal and standard online services for SMEs in some key industries such as medicine, home appliances, construction, insurance and automobile manufacturing. The Bank also cooperates with leading renowned companies to provide customized services. In addition, the Bank and Santander are jointly developing a global supply chain financial services platform which applies big data and artificial intelligence technology to provide online services for SMEs. For the year ended 31 December 2019, the amount of supply chain finance loan provided by the Bank was RMB83.4 billion. As of 30 June 2020, the outstanding amount of the Bank's supply chain finance loan was RMB32.8 billion. The Bank was awarded with "2019 Best Supply Chain Financial Service Bank" by China Business Network in 2019.

Inclusive Finance

The Bank provides comprehensive inclusive financial services for SMEs and start-up companies. The Bank offers standardized products catered for SMEs customers and continuously improves the process of its online financial services. It provides account opening service on WeChat with streamlined procedures to improve user efficiency and customer experience. The Bank is also committed to provide inclusive financial services to SMEs, innovative and start-up companies and other customers through cooperation with guarantee companies. As of 30 June 2020, the outstanding amount of the Bank's inclusive finance loans was RMB35.2 billion.

Technology and Innovation Finance

The Bank provides loan products designed for technology and innovation enterprises to serves their financing needs. The Bank has also established the BOSC-Lingang Technology and Innovation Financing Service Demonstration Zone and deepened its cooperation with Zhangjiang Hi-Tech Park and other industrial parks, in order to build an ecosystem providing technology and innovation financing services to support development of outstanding enterprises in emerging industries. As of 30 June 2020, the outstanding amount of the Bank's technology and innovation finance loans was RMB86.9 billion.

Livelihood Finance

The Banks strives to establish a livelihood finance system which provides various financial services for its corporate customers in key areas such as infrastructure, government services, healthcare, education, pension and city renovation. As of 30 June 2020, the outstanding amount of the Bank's livelihood finance was RMB45.9 billion.

Bill Discounting

Bill discounting refers to the Bank's discounted purchase of bank acceptance bills and corporate acceptance bills with a remaining maturity of less than six months. Bill discounting is a form of short-term financing provided to corporate customers. The Bank may resell these bills to the PBOC or other financial institutions authorised to conduct bill discounting, providing it with additional liquidity and spread income. As of 31 December 2017, 2018 and 2019 and 30 June 2020, its discounted bills outstanding amounted to RMB43.4 billion, RMB39.6 billion, RMB66.9 billion and RMB93.0 billion, respectively, accounting for 6.5 per cent., 4.7 per cent., 6.9 per cent. and 9.0 per cent., respectively, of the Bank's total loans and advances to customers.

Corporate Deposits

The Bank offers its corporate customers a range of time and demand deposit products in Renminbi and foreign currencies. The Bank offers a call deposit product that bears a higher interest rate than demand deposits but retains some of the flexibility of demand deposits by allowing its customers to withdraw funds with one or seven days' prior notice for RMB-denominated deposits and seven days' prior notice for foreign currency-denominated deposits. The Bank offers RMB-denominated deposit products with negotiated interest rates and deposit terms, which require its deposit customers to deposit with the Bank a minimum deposit amount in a certain time period. The minimum deposit amount bears the interest rates of demand deposits and any amount in excess of the minimum deposit amount bears the interest rates for negotiated deposits stipulated by the PBOC. For certain types of depositors, the Bank offers RMB-denominated deposit products with negotiated deposit terms and interest rates not stipulated by the PBOC.

The Bank offers RMB and foreign currency-denominated structured deposits for its corporate customers. Its structured deposits comprise of a combination of deposits and derivative products such as forwards, swaps, options and futures. The Bank's structured deposits offer potentially higher returns than regular deposits but link investor returns on their deposits to the fluctuation of interest rates, exchange rates or indexes or credit risks of the underlying instruments.

The Bank's corporate deposits in both Renminbi and foreign currencies amounted to RMB651.6 billion, RMB729.9 billion, RMB894.3 billion and RMB965.0 billion as of 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

Fee- and Commission-based Products and Services

The Bank provides its corporate customers with a broad range of fee- and commission-based products and services, including settlement services, cash management services, investment banking services, custody services, guarantee and loan commitment services, agency services, corporate wealth management services, foreign currency trading and foreign exchange services, and financial advisory services on syndicate loans. The Bank's net fee and commission income generated from the Bank's wholesale financial business amounted to RMB4.1 billion, RMB3.7 billion, RMB3.9 billion, RMB2.0 billion and RMB2.3 billion, for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, respectively.

Settlement Services

The Bank offers both domestic and international settlement services to its corporate customers through various channels including bank counters, internet banking, phone banking, ATMs and POS terminals. Leveraging on its strength in traditional settlement services, the Bank continues to promote the usage of electronic banking channels, through which its customers can settle payments online or by phone.

The Bank's domestic settlement services include settlement through cash, bank drafts, promissory notes and cheques. The Bank also provides entrusted collection, payment and disbursement services. The Bank's international settlement services primarily include letter of credit, collection and remittances.

Cash Management Services

The Bank provides integrated cash management services to its corporate customers for their liquidity management. Its services include account management, information gathering and analysis, cash collection and disbursement, wealth management and other value-added services, which together offer a comprehensive solution for its customers' cash management needs. Cash management services are particularly useful for large and medium-sized companies that need centralised management of their cash flow across different locations and subsidiaries. Through "Bank-Enterprise Direct Access" ("銀企直聯") system of the Bank, its corporate customers can conduct fund transfers among the accounts of their headquarters and subsidiaries and perform account inquiry and data downloading activities. The Bank offers its customers integrated services in both Renminbi and foreign currencies.

Investment Banking Services

The Bank provides investment banking services to its corporate customers, including underwriting of debt financing instruments, acquisition financing advisory services, wealth management services and other financial advisory services. The Bank was one of the first City Commercial Banks to provide underwriting services of medium-term notes as lead underwriter. It acted as member of the underwriting syndicate for offerings of both book-entry and voucher PRC government bonds and received "Excellent Underwriting Member" title from the PRC Ministry of Finance numerous times. It also acted as a member of the underwriting syndicate for offerings of bonds issued by China Development Bank, Agricultural Development Bank of China and The Export-Import Bank of China and was named "Excellent Underwriter" by these banks multiple times. For the years ended 31 December 2018, 2019 and for the six months ended 30 June 2020, the Bank underwrote issuance of debt securities with an aggregate principal amount of RMB88 billion, RMB117 billion and RMB90.9 billion, respectively.

Custody Services

The Bank provides custody services to its corporate customers. Assets under custody primarily include assets of securities investment funds, certain customer assets of fund management companies, collective or directed asset management schemes managed by securities firms, trust schemes by trust companies, private equity funds and certain wealth management assets of commercial banks. The Bank's custody services include asset custody, fund clearing, accounting, asset valuation, investment monitoring and custody reporting services. The Bank made great efforts to develop the four key market segments in custody services, namely, public funds, wealth management, insurance and asset securitization. In addition, the Bank offers related value-added services, such as idle funds management, agency collection services and project promotion. The Bank is permitted to provide custody services for Qualified Foreign Limited Partnerships in Shanghai.

As of 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank held a total of RMB1,651.1 billion, RMB1,918 billion, RMB1,787.8 billion and RMB1,908.9 billion of assets under custody, respectively. The Bank's net fee and commission income generated from custody services was RMB1,017 million, RMB745 million RMB590 million, RMB285 million and RMB262 million, respectively, for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020.

Guarantee and Loan Commitment Services

The Bank provides guarantee services for its corporate customers primarily in the form of bid guarantees, performance guarantees, advance payment guarantees, quality and maintenance guarantees and payment guarantees in both Renminbi and major foreign currencies.

The Bank issues loan commitment letters to its corporate customers, promising to extend loans within a certain period of time on agree-upon terms upon satisfaction of certain conditions. Such customers can use such letters as proof of source of funding for the relevant projects they propose to undertake. The Bank also issues letters of intent for its corporate customers expressing a non-binding intent to extend loans in the future upon satisfaction of certain conditions.

Agency Services

The Bank provides various agency services to the Shanghai Municipal Government and several district governments in Shanghai. For example, the Bank acted as the agent bank for the treasury single accounts and fiscal budget credit cards ("公務卡") for many government agencies in Shanghai, at both the municipal level and the district level. The Bank is one of the agent banks for the Shanghai Social Security Fund in providing various services in respect of medical insurance funds, unemployment insurance funds, small town resident supplementary social security funds and immigrant worker insurance funds. The Bank is designated by the Shanghai Medical Insurance Fund in settling medical insurance payments from the fund to medical institutions in Shanghai under its service brand "Bank Hospital Direct Link" ("銀醫直聯").

The Bank also offers agency services to businesses. Under its service brand "365-day collection network" ("365收款網"), the Bank visits the stores of its retail chain customers in Shanghai, collects cash or bills and provides small notes exchange service. The Bank extends entrusted loans and collect payments on behalf of its corporate customers.

Corporate Wealth Management Services

The Bank offers a variety of RMB-denominated wealth management products to its corporate customers under the "Yingjia" ("贏家") brand. The Bank offers wealth management products with floating rate and no guaranteed return under its "Easy and Flexible" ("易精靈") brand and "Respected and Grand" ("專崇君享") brand. The Bank also offers wealth management products with guaranteed return.

Foreign Currency Trading and Foreign Exchange Services

The Bank provides foreign currency trading services between major foreign currencies and exchange services between Renminbi and major foreign currencies to its corporate customers. Its customers can effect the above-mentioned transactions with the Bank on the spot market and effect the exchange between Renminbi and major foreign currencies by entering into forward contracts with the Bank.

Treasury Business

The Bank's treasury business consists primarily of (i) money market activities, (ii) inter-bank market activities, (iii) investment and trading activities, (iv) wealth management for customers and (v) gold trading and financing. In conducting its treasury operations, the Bank seeks to ensure its liquidity and achieve a balance between returns and risks on its investment portfolio. The Bank takes into consideration market and macroeconomic conditions. The Bank is one of the first banks approved by the PBOC to engage in SHIBOR quoting. It was also one of the eight Chinese banks being centralised pricing member for Shanghai Gold Benchmark Price. It is the first batch of members of the Shanghai Clearing House.

Money Market Activities

The Bank's money market activities primarily consist of (i) placements with and from domestic and overseas banks and other financial institutions, often referred to as the inter-bank money market transactions, (ii) repurchase and reverse repurchase transactions and (iii) public market transactions. The Bank conducts these transactions through China Foreign Exchange Trade System. The securities underlying its repurchase and reverse repurchase transactions are predominantly RMB-denominated PRC government and policy bank bonds and PBOC bills, with a small portion of foreign currency-denominated bonds primarily issued by foreign governments.

The Bank is an active participant in money market activities. It was one of the first banks approved by the PBOC to engage in SHIBOR quoting. As one of the SHIBOR-quoting banks, the Bank provides daily quotes according to its own liquidity and capital supply and demand.

Inter-Bank Market Activities

The Bank's inter-bank market activities include inter-bank asset business and inter-bank deposits. Such inter-bank asset business consists primarily of (i) bank acceptance bills repurchase, (ii) deposits with banks and other financial institutions, (iii) purchase of wealth management products from other banks and (iv) investment of trust beneficiary interests. The counterparties of the Bank's inter-bank asset business are mainly other banks.

The Bank established a professional operation system featuring classified marketing and hierarchical operation for interbank customers. The Bank also formed a digital view for interbank customers by launching the interbank customer relationship management (CRM) system to enhance the whole-process and end-to-end interbank customer marketing management ability.

Investment and Trading Activities

The Bank engages in trading activities to achieve short-term profits, which primarily include trading of debt securities issued by the PRC government and PBOC bills, as well as foreign currency trading. The Bank employs strict stop-loss and other limits for such trading transactions. In addition, the Bank hedges its investment risks through the purchase of derivative financial instruments, such as interest rate swap contracts. The Bank sets the target returns on its investment portfolio, primarily through its assessment of the interest rate, exchange rate, credit, liquidity, macroeconomic trends and other risks associated with the investment.

The Bank established a linkage mechanism for core trading to improve its profitability, trading activities and customer acquisition capability, primarily through studying trading strategies from multiple dimensions, strengthening management of trading process and forming a core trading team consist of internal and external professional traders. For the first half of 2020, the Bank's annualised return for debt trading increased by 11.0 base points compared to the first half of 2019. In 2019, the Bank was also awarded with a number of prizes and awards, including "core dealer", "excellent currency market dealer", "excellent bond market dealer" and "excellent derivatives market dealer" and "opening-up contribution award" in the interbank local currency market granted by the China Foreign Exchange Trade System. The Bank maintains its trading activities in bond, foreign exchange, precious metal, derivative and other major markets.

The Bank primarily invests in RMB-denominated and foreign currency-denominated debt securities issued by the PRC government, the PBOC, PRC policy banks, banks and non-bank financial institutions and other institutions. The Bank also invests in other debt instruments issued by financial institutions, mainly including trust plans, asset management plans and wealth management products issued by other PRC commercial bank.

Wealth Management for Customers

The Bank's treasury business also includes the management of proceeds from the issuance of wealth management products to its corporate customers, institutions customer and personal customers. See "*Description of the Bank's Principal Businesses – Wholesale Financial Business – Corporate Banking – Major Products and Services – Fee- and Commission based Corporate Products and Services – Corporate Wealth Management Business*" and "*Description of the Bank's Principal Businesses – Retail Financial Business – Major Products and Services – Fee- and Commission-based Retail Products and Services – Personal Wealth Management Services*" for details of the Bank's corporate wealth management business and retail wealth management business.

In recent years, the Bank optimised its procedures for wealth management product development, investment management and risk management and promoted the standardised, sustainable and orderly development of the business. Also, the Bank adapted its products in order to meet the demands of various types of customers with different risk-reward features and investments in different types of markets. The Bank's wealth management business emphasises innovative products, low risk, high efficiency and sustainability. The wealth management business of the Bank strictly complies with regulatory requirements.

For the Bank's investment of wealth management assets, the Bank continues to optimise its portfolio management to ensure efficient restructuring of asset allocation. The Bank reviews the invested entities based on the "principle of penetration" to effectively control its credit risk. The Bank also adopts the risk management system and quantitative analysis to monitor the financial conditions of the invested companies. With its continuous efforts on post-investment risk management, the Bank believes it has effectively enhanced the safety of its investment of wealth management assets.

On 18 January 2019, the board of directors of the Bank resolved to establish subsidiaries to engage in wealth management business, which will serve as an important measure to separate the on- and off-balance sheet risks in accordance with the regulatory requirements. Subject to further approval from the relevant regulatory authorities, the Bank believes that the establishment of subsidiaries will accelerate its transformation to specialised operation in wealth management business and enhance its competitiveness. It also enables the Bank to provide a diversified and comprehensive wealth management product portfolio with distinct features. The Bank expects to expand its investment scope, create synergies with its supply chain finance, technology and innovation finance and inclusive finance services, and to offer a broader spectrum of comprehensive financial services.

As of 30 June 2020, the outstanding amount of the Bank's wealth management products amounted to RMB362.4 billion.

Gold Trading and Financing

The Bank engages in gold trading for its own account. The Bank also engages in short-term borrowing of gold from and lending of gold to other domestic banks.

RETAIL FINANCIAL BUSINESS

The Bank offers its personal customers a broad spectrum of products and services, including personal loans, bank cards, personal deposits and fee- and commission-based products and services such as agency and distribution services, personal wealth management, distribution of fund products, bancassurance, agency trading of precious metal and foreign currency trading and foreign exchange services.

Its retail financial business accounted for 19.2 per cent., 24.4 per cent., 28.0 per cent., 26.8 per cent. and 28.8 per cent., respectively, of the Bank's total operating income for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020. Its personal loans (including credit card overdraft) accounted for 26.2 per cent., 32.5 per cent., 33.1 per cent. and 31.5 per cent., respectively, of the Bank's total loans and its personal deposits accounted for 22.2 per cent., 22.1 per cent., 24.6 per cent. and 24.5 per cent., respectively, of its total deposits from total customers as of 31 December 2017, 2018 and 2019 and 30 June 2020. The Bank started the government-sponsored pension distribution services in 1998 and continued its leading position among all banks in Shanghai in terms of total number of government-sponsored pension distribution accounts in 2019.

Customer Base

As of 30 June 2020, the Bank had approximately 17.05 million personal customers. The Bank focuses its marketing efforts on medium- to high-end personal customers. As of 31 December 2017, 2018 and 2019 and 30 June 2020, AUM from the Bank's personal customers amounted to RMB429.8 billion, RMB519.6 billion, RMB635.9 billion and RMB695.0 billion, respectively.

Major Products and Services

Personal Loans

The Bank's personal loans primarily include personal residential and business mortgage loans, personal business loans, and credit cards. The Bank also provides other personal loan products, including personal consumption loans and consumer auto loans. The Bank's personal loans outstanding amounted to RMB174.1 billion, RMB276.8 billion, RMB321.8 billion and RMB323.8 billion, respectively, as of 31 December 2017, 2018 and 2019 and 30 June 2020.

The table below sets forth a breakdown of the Bank's personal loans by product type as of the dates indicated:

	As of 31 December						As of 30 June	
	2017		2018		2019		2020	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(RMB million, except percentages)							
Personal consumption loans	69,253	39.8	157,476	56.9	175,059	54.4	161,096	49.7
Property mortgages	64,533	37.1	72,769	26.3	94,450	29.4	105,108	32.5
Personal business loans	15,422	8.9	15,624	5.6	18,747	5.8	24,205	7.5
Credit cards	24,843	14.3	30,953	11.2	33,522	10.4	33,416	10.3
Total	**174,051**	**100.0**	**276,821**	**100.0**	**321,779**	**100.0**	**323,825**	**100.0**

Bank Cards

The Bank offers a variety of bank card products and services to its personal customers, which consist of RMB-denominated debit cards and credit cards and dual-currency credit cards denominated in both Renminbi and U.S. dollars.

Debit Cards

The Bank issues debit cards to customers who maintain RMB-denominated deposit accounts with it. With a cardholder's authorisation, the Bank directly deducts from the cardholder's deposit accounts payments for transactions conducted through such card. The fees and commissions the Bank receives from its debit card business primarily consist of (i) commissions the Bank collects from merchants, (ii) ATM usage fees the Bank collects from other banks' cardholders who use ATMs of the Bank and its cardholders who withdraw cash from other banks' ATMs and (iii) annual fees the Bank collects from its cardholders. The Bank is a member of China Unionpay and its debit cards are accepted through its own network across China and Unionpay network globally.

Credit Card

The Bank started issuing credit cards in December 2002. It offers RMB-denominated credit cards and dual-currency credit cards denominated in both Renminbi and U.S. Dollars. Its RMB-denominated credit cards could be used to purchase goods and services and withdraw cash in local currencies at ATMs through China Unionpay network in and outside of China and the outstanding balances on the card may be repaid in Renminbi only. Its dual-currency credit cards are accepted globally to purchase goods and services and withdraw cash in local currencies at ATMs through the networks of China Unionpay, Visa, MasterCard or JCB and the outstanding balances on the card may be repaid in either Renminbi or U.S. Dollars. The Bank continues to improve the quality of its credit card products and provide services to its credit card holders such as multiple repayment solutions, overseas support, real-time transaction monitoring and 24-hour special helpline.

The Bank's income on credit cards consists primarily of (i) interchange fees the Bank collects from merchants and (ii) interest payments, annual fees, instalment fees and late payment penalties that the Bank collects from its cardholders.

As of 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank had a total of approximately 5,619,100, 7,242,980, 8,975,500 and 9,863,300 credit card holders, respectively, and the overdraft amount on its credit cards amounted to RMB24.8 billion, RMB31.0 billion, RMB33.5 billion and RMB33.4 billion, respectively. For the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, the total transaction volume of the Bank's credit cards amounted to RMB84.8 billion, RMB108.7 billion, RMB127.5 billion, RMB60.8 billion and RMB63.5 billion, respectively.

The Bank determines the credit lines granted to holders of its credit cards based on a number of factors, including their credit history, family status, employment status and business relationship with the Bank. Its credit card business is managed and operated by the Credit Card Centre, which maintains independent accounting and management systems and coordinates with its branches to facilitate credit card-related marketing, application, approval, card distribution, account management and customer services.

Personal Deposits

The Bank offers personal demand deposits and personal time deposits services in Renminbi and major foreign currencies to its personal customers.

The Bank's personal deposits in both Renminbi and foreign currencies amounted to RMB205.3 billion, RMB230.3 billion, RMB291.7 billion and RMB319.1 billion as of 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, accounting for 22.2 per cent., 22.1 per cent., 24.6 per cent. and 24.5 per cent. of its total outstanding deposits, respectively.

Fee- and Commission-based Products and Services

The Bank offers its personal customers fee- and commission-based products and services, such as agency and distribution services, personal wealth management services, distribution of fund products, bancassurance, agency trading of precious metal and foreign currency trading and foreign exchange services. For the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, its net fee and commission income generated from the Bank's retail financial business amounted to RMB1,941.6 million, RMB2,095.9 million, RMB2,555.8 million, RMB1,344.9 million and RMB1,295.3 million, respectively.

Agency and Distribution Services

The Bank acts as agent for a number of government agencies and public welfare funds in Shanghai and helps them distribute funds to individual recipients. The Bank provides distribution service for pension funds, medical insurance funds, unemployment insurance funds, immigrant worker insurance funds, small town resident supplementary social security funds, retirement subsidies and medical expenses reimbursements. It also acts as agent for companies for payment of salaries to their employees. The Bank takes advantage of the opportunity of making distribution to individual recipients and conduct cross-selling of other retail products to these recipients.

The Bank was designated by the Shanghai Human Resources and Social Security Bureau in September 1998 as one of the first two banks in Shanghai to provide government-sponsored pension distribution services in Shanghai and has maintained its leading position in the provision of such service in Shanghai since then. The Bank has accumulated a wealth of experience in such business and developed a wide range of products and services addressing the needs of pension service customers. As of 30 June 2020, the Bank had a total of 1,582,300 pension service customers. Its pension service customers have contributed significantly to the Bank's retail financial business and are strategically important to the future growth of its retail financial business. As of 30 June 2020, the total asset under management of Bank's pension service customers accounted for 45.7 per cent. of its total assets under management of personal customers. Pension service customers constitute a large portion of the Bank's personal customer base for its sales of insurance products, funds and PRC government bonds and personal wealth management services.

Personal Wealth Management Products and Services

The Bank offers a wide range of personal wealth management products under its "Huicai" ("慧財") brand. The Bank's personal wealth management products provide customers with choices of investments with good returns and maintain its existing customers and the development of its competitive wealth management products help it explore external customer groups to enhance its competitiveness.

Distribution of Fund Products

The Bank acts as agent to distribute various fund products including open-end securities investment funds and collective securities investment funds.

Bancassurance

The Bank distributes insurance policies as an agent for insurance companies. It has been actively developing relationships with insurance companies.

Agency Trading of Precious Metal

As one of the founding members and one of the founding members of financial category of the Shanghai Gold Exchange, the Bank provides agency services to its personal customers in gold and silver trading at the Shanghai Gold Exchange under its "Huijin" ("慧金") service brand. The Bank acts as the agent for its personal customers in different transactions and activities, including spot transactions, deferred transactions and derivative trading and provides related funds clearance and physical delivery services.

Foreign Currency Trading and Foreign Exchange Services

The Bank provides currency trading services among major foreign currencies and foreign exchange services between Renminbi and major foreign currencies for its personal customers.

Other Fee- and Commission-Based Services

The Bank's other fee- and commission-based services to personal customers include agency sales of PRC government bonds, entrusted lending services, settlement services, clean collection, payment services, bill purchased as well as safety deposit box services. The Bank also provides fund transfer and remittance services through counter transactions at many of its branches and outlets as well as through phone banking and internet banking platforms.

Private Banking

The Bank provides a wide range of products and services to its private banking customers, including asset management, family trust, private fund, financial management, cross-border financial services, wealth succession and other value-added services. The Bank has in recent years increased its investments in expanding its network of private banking business and diversifying its product portfolios, forming a nationwide coverage network for high net-worth customers. The Bank has expanded its wealth management product lines to meet the diverse needs of its clients, introducing a variety of financial products in recent years, including black gold debit card providing exclusive value-added services to its private banking customers. The Bank's private banking services and products were awarded with "Best Private Bank in China" for three consecutive years among the city commercial banks by *Asia Private Banker* (亞洲私人銀行家) from 2017 to 2019.

As of 30 June 2020, the Bank had a total of 136,102 private banking customers with an average monthly AUM exceeding RMB1 million on daily basis, and the AUM of the abovementioned customers was RMB327.5 billion.

CROSS-BORDER OPERATIONS

BOS Hong Kong, the wholly-owned subsidiary of the Bank, commenced its business in June 2013. Its banking products primarily include corporate banking services such as call and time deposits, working capital loans, syndicate and club loans, structured financing, merger and acquisition financing, trade financing, capital market products and financial derivatives. BOSC International Company Limited, the wholly owned subsidiary of BOS Hong Kong, commenced its business operations in January 2015.

Through the "Shanghai-Hong Kong-Taiwan Financial Services Platform", a financial services platform providing services for transactions across the mainland, Hong Kong and Taiwan, the Bank and its partners cooperate in client referral, product innovation and personnel communication and training. The cooperation covers following business areas: syndicate loan, trade finance, guarantee and international settlement in both foreign currencies and Renminbi. The Bank and its partners have agreed on furthering cooperation in the following areas: (i) corporate banking (including cross-border syndicate loans, international trade finance and other cross-border financings); (ii) retail financial business (including wealth management services and credit card business); (iii) services to financial institutions (including international payment and clearing, credit and refinancing services to financial institutions); (iv) distribution channels (including physical branches and outlets and electronic banking channels); (v) middle and back office cooperation (including the design of common logo and advertisement and personnel communication and training); and (vi) system building (including building up standard process for client referral, information transmission channels and information sharing mechanism).

Santander has been the Bank's strategic shareholder since 2014. By connecting to Santander's global ID intranet, the Bank is able to build client referral mechanism and strength its business cooperation with Santander. Such cooperation mainly focuses on offshore syndicate loan, account settlement, trade financing and other cross boarder business. In 2019, the Bank served 1,156 clients through the referral system.

The Bank had established correspondent relationships with domestic and overseas banks in account clearance, international settlement, trade finance, treasury operations and personnel communication and training.

PRODUCTS AND SERVICES PRICING POLICY

Under the regulatory regime of the PRC banking industry, the Bank has established a competitive product pricing mechanism based on risk-adjusted returns. The Bank takes various factors into consideration to determine or adjust its prices, such as the capital cost, management cost, risk, expected return and prices guided by government and regulatory bodies. In addition, the Bank also considers the overall market condition as well as prices of similar products and services offered by its competitors.

The Bank's Renminbi loan rate is subject to regulations of PBOC. There has been no upper limit on interest rates for Renminbi-denominated loans since October 2004. The lower limit of 70 per cent. of PBOC's benchmark rate was removed in July 2013. With respect to interest rates of home mortgage loans, the lowest interest rate the Bank may charge is 70 per cent. of the relevant PBOC benchmark rate. Pursuant to the current PBOC rules, the Bank may set loan interest rate other than individual housing mortgage loans through commercial negotiations. In August 2019, the PBOC announced to reform the mechanism used to establish the LPR system. The new LPR quotations will be published on a monthly basis based on rates of open market operations, primarily the PBOC's medium-term lending facility. 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. 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. See "*Risk Factors – Risks Relating to The Banking Industry in China – The Bank is subject to changes in interest rate and other market risks, and the Bank's ability to hedge market risks is limited*" for more information. The Bank prices its products and services based on various criteria such as the borrower's financial position and credit rating, nature and value of collateral, loan maturity, current market conditions, as well as capital cost, expected rate of return, risks and its internal capital pricing standard. Based on these considerations, the Bank seeks to have a pricing mechanism that can match risks with return and can generally charge higher interest rates for customers with relatively high-risk profile.

The Bank also sets differentiated prices for corporate loans based on the borrower's business scale and contribution, guarantees and industry. For example, the Bank has greater pricing power for small and micro enterprises than large corporate customers. The Bank adopts risk adjustment principle to price personal loans, and usually applies higher interest rates to personal business loans and unsecured personal loans than compared to other types of personal loans.

DISTRIBUTION CHANNELS

As of 30 June 2020, the Bank's distribution channels consisted of physical distribution channels, self-service banking centres and stations and electronic banking channels. The Bank has also established four rural bank subsidiaries, namely Minhang BoS Rural Bank, Qujiang BoS Rural Bank, Jiangning BoS Rural Bank and Chongzhou BoS Rural Bank.

Physical Distribution Channel

The Bank was one of the first City Commercial Banks in China to establish a branch outlet outside of the city where the headquarter is located. As of 30 June 2020, the Bank had 318 branches and outlets, all of which were in mainland China and 228 of which were in Shanghai. The Bank has one of the most established presence in terms of number of branches and outlets among all banks in Shanghai. Its branches and outlets include head office, 306 branches, 10 sub-branches, one credit card centre and one Small Enterprises financial services centre. The Bank's head office is located in Shanghai and is responsible for the overall decision-making and management.

As of 30 June 2020, the Bank had 216 branches, 10 sub-branches, one credit card centre and one Small Enterprises financial services centre in Shanghai and a number of branches and sub-branches in other cities including Beijing, Shenzhen, Hangzhou, Nanjing, Tianjin, Chengdu, Ningbo and Suzhou. The Bank's branches and outlets are concentrated in the relatively affluent eastern coastal regions of China, particularly the Yangtze River Delta, the Pearl River Delta and the Bohai Rim. It also has branches and outlets in Chengdu, a hub of Central and Western China. In line with its customer concentration in these regions, the Bank seeks to strategically locate its branches and outlets in these regions to better serve its customers.

Self-Service Banking Centres and Stations

The Bank intensified its efforts in improving its self-service banking and providing better and more efficient service to its customers. As of 30 June 2020, the Bank had 415 self-service banking stations, which operate 24 hours a day, seven days a week.

Electronic Banking

The Bank provides its customers with secure, fast, flexible and efficient electronic banking services, through 24 hours a day, seven days a week internet banking, mobile banking, WeChat banking, phone banking and direct banking platform.

Internet Banking

The Bank's internet banking platform consists of retail internet banking system and corporate internet banking system. Its retail internet banking system provides its personal customers access to various online services including retail account management, money transfer and remittance, fee payment, investment and wealth management, personal loans inquiries, online shopping and credit card services which include payment, instalment payment application, loss reporting, card activation and bill inquiry.

The Bank offers its corporate customers various online services through its corporate internet banking system, such as account management, payment and settlement, agency service, check service, electronic instruments, foreign-currency remittance, investment and wealth management and money transfer between securities firms and the China Securities Depository and Clearing Corporation Limited.

In 2014, the Bank launched a direct banking platform through "Bank of Shanghai Express (上行快線)", which focuses on four core functions, namely deposit, sales of wealth management products, agency sales of insurance products and agency sales of fund. As of 30 June 2020, the Bank had approximately 4,536,200 personal internet banking customers and approximately 89,000 monthly active corporate internet banking customers. For the six months ended 30 June 2020, the Bank's total transactions conducted through internet amounted to RMB2,550 billion.

Mobile Banking

The Bank enriched business features of its mobile banking services by launching Apple Pay application service, HCE (host-card emulation) cloud flash payment and other cutting-edge services. The Bank also carried forward the establishment of various near-field payment methods, such as UnionPay POS payment and bracelet payment. The Bank also upgraded the safety of mobile banking products, optimised user interactive interface and improved customer experience. As of 30 June 2020, the Bank had approximately 6,244,500 personal mobile banking customers and 87,500 corporate mobile banking customers.

WeChat Banking

In 2014, the Bank launched WeChat banking, which, among other features, enables users to remotely open a banking account. As of 30 June 2020, the Bank had approximately 3,598,000 registered WeChat banking customers.

Phone Banking

The Bank offers phone banking services through its national customer service number "95594". Its phone banking services for personal customers include account inquiry, money transfer and settlement, bill payment, credit card loss reporting, agency sales of insurance products and complaints processing. The Bank provides its platinum credit card holders with exclusive phone lines and access to its services. Its phone banking services for corporate customers include account inquiry, corporate credit card ("單位信用卡") loss reporting and complaints processing. For corporate customers who have registered, the Bank also provides facsimile services of account statements.

MATERIAL CONTROLLED SUBSIDIARIES AND ASSOCIATED COMPANY OF THE BANK

BOS Hong Kong

BOS Hong Kong is a wholly owned subsidiary of the Bank with registered capital of HK$4 billion as of 30 June 2020. The principal business activities of BOS Hong Kong are corporate banking business, financial market business, cross-border services and value-added services. As of 31 December 2017, 2018 and 2019 and 30 June 2020, BOS Hong Kong's total assets reached HK$25.8 billion, HK$28.7 billion, HK$32.9 billion and HK$36.5 billion, respectively. It generated a net profit of HK$221 million, HK$297 million, HK$305 million, HK$170 million and HK$122 million, respectively, for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020.

BOSC Asset Management

BOSC Asset Management is a subsidiary of the Bank with registered capital of RMB300 million as of 30 June 2020. As of 30 June 2020, the Bank held 90.0 per cent. of BOSC Asset Management's equity interest. The principal business activities of BOSC Asset Management are offering and sale of funds, asset management and asset management for specific clients. As of 31 December 2017, 2018 and 2019 and 30 June 2020, BOSC Asset Management's total assets reached RMB1.4 billion, RMB1.1 billion, RMB1.2 billion and RMB1.1 billion, respectively. It generated a net profit of RMB105 million, RMB100 million, RMB77 million, RMB130 million and RMB49 million respectively, for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020.

BOSC International

BOSC International was established as the Bank's sole overseas investment banking platform in March 2014. The establishment of BOSC International is an important step to implement the Bank's strategy of overseas business expansion and investment banking business development. BOSC International obtained licenses to carry out Type 1, Type 4, Type 6 and Type 9 regulated activities as set out in Schedule 5 to the Securities and Futures Ordinance of Hong Kong.

Minhang BoS Rural Bank

Minhang BoS Rural Bank is a subsidiary of the Bank with registered capital of RMB250 million as of 30 June 2020. As of 30 June 2020, the Bank held 46.41 per cent. of Minhang BoS Rural Bank's equity interest.

Qujiang BoS Rural Bank

Qujiang BoS Rural Bank is a subsidiary of the Bank with registered capital of RMB100 million as of 30 June 2020. As of 30 June 2020, the Bank held 51.0 per cent. of Qujiang BoS Rural Bank's equity interest.

Jiangning BoS Rural Bank

Jiangning BoS Rural Bank is a subsidiary of the Bank with registered capital of RMB200 million as of 30 June 2020. As of 30 June 2020, the Bank held 51.0 per cent. of Jiangning BoS Rural Bank's equity interest.

Chongzhou BoS Rural Bank

Chongzhou Shangyin Rural Bank is a subsidiary of the Bank with registered capital of RMB130 million as of 30 June 2020. As of 30 June 2020, the Bank held 51.0 per cent. of Chongzhou BoS Rural Bank's equity interest.

Shanghai Shangcheng Consumption Finance Company Limited

Shanghai Shangcheng Consumption Finance Company Limited is a subsidiary of the Bank with registered capital of RMB1 billion as of 30 June 2020. As of 30 June 2020, the Bank held 38.0 per cent of Shanghai Shangcheng Consumption Finance Company Limited and was its largest shareholder.

COMPETITION

The Bank faces significant competition in its principal areas of business from other commercial banks and other financial institutions in China, particularly in Shanghai. The Bank competes primarily with Large Commercial Banks, Joint-stock Commercial Banks, China Postal Savings Bank and other City Commercial Banks. It also faces increasing competition from other financial institutions, including rural commercial banks, policy and development banks and foreign banks operating in Shanghai and other locations where the Bank has presence. Competition with other commercial banks and financial institutions in China primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, reach of distribution network and brand recognition as well as information technology capabilities.

In Shanghai, the Bank's primary competitors are Large Commercial Banks and China Postal Savings Bank. Large Commercial Banks generally have much larger customer and deposit bases, more extensive distribution networks and more capital than other banks. Due to their size and geographical presence, Large Commercial Banks are predominant players in China's commercial banking industry. Joint-stock Commercial Banks generally have achieved fast growth in recent years through flexible operational mechanism and products and services innovation.

In places outside of Shanghai, besides competition from Large Commercial Banks, Joint-stock Commercial Banks and China Postal Savings Bank, the Bank also faces competition from other City Commercial Banks, rural commercial banks or local banks that have been focused on the local market for longer periods of time and have larger customer bases.

In addition, the Bank faces competition from non-banking institutions such as securities firms and insurance companies in providing financing and wealth management services to its customers. See "*Risk Factors – Risks Relating to the Banking Industry in China – The Bank faces intense competition in China's banking industry as well as competition from alternative corporate financing and investment channels*".

In response to the competitive environment, the Bank intends to continue to implement its strategies to differentiate itself from its competitors and to enable the Bank to compete effectively in the PRC commercial banking industry.

EMPLOYEES

As of 30 June 2020, the Bank had 12,471 employees.

The Bank contributes to its employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Bank provides training programmes to its employees to improve their professional competence and skills. The Bank has not experienced any strikes or other material labour activities that have interfered with its operations, and the Bank believes that it has maintained a good relationship with its employees.

INTELLECTUAL PROPERTY

The Bank conducts business under the "上海銀行", "上銀", and certain other brand names and logos.

LEGAL AND REGULATORY PROCEEDINGS

The Bank is involved in legal proceedings in the ordinary course of business. Most of the legal proceedings were initiated by the Bank for recovering NPLs, while some legal proceedings arose from customer disputes or others. The Bank does not anticipate any material adverse effect from these pending legal proceedings, individually or in aggregate, on its business, financial positions and results of operations.

FUNDING AND CAPITAL ADEQUACY

FUNDING

The Bank's funding is primarily derived from deposits placed with the Bank by corporate and personal customers. The Bank also derives funding from shareholders' equity, debt instrument issuance and interbank borrowings.

The following table sets forth a breakdown of the Bank's customer deposits classified by product type as of 30 June 2020:

Item	As of 30 June 2020 Amount	Per cent. of total
	(RMB millions)	
Corporate deposits	**965,009**	**74.14**
1. Demand deposits	396,222	30.44
2. Time deposits	568,787	43.70
Retail deposits	**319,099**	**24.51**
1. Demand deposits	80,880	6.21
2. Time deposits	238,219	18.30
Pledged deposits	**1,284,108**	**98.65**
Accrued interest	**17,574**	**1.30**
Total	**1,301,682**	**100.0**

CAPITAL ADEQUACY

The following table sets forth information relating to the capital adequacy of the Bank (excluding its subsidiaries) as of 30 June 2020 calculated in accordance with the Provisional Regulations Governing Capital Adequacy of Commercial Banks and related regulations promulgated by the CBIRC:

	(RMB thousands)
1. Core tier 1 capital	158,894,962
2. Other tier 1 capital	19,969,983
3. Tier 2 capital	41,209,727
Total Capital	**220,074,672**
Deductions	(523,612)
Net Capital	219,551,060
Net risk-weighted assets	1,658,285,515
Core tier 1 capital adequacy ratio (per cent.)	9.55
Tier 1 capital adequacy ratio (per cent.)	10.75
Capital adequacy ratio (per cent.)	13.24

Proposed Issue of Convertible Bonds

The Board of Directors and the shareholders of the Bank approved a proposed issue of convertible bonds on 25 October 2019 and 12 December 2019, respectively. The proposed issue shall not exceed RMB20 billion. The net proceeds received from the proposed issue of convertible bonds will be used to finance the future business development of the Bank and to replenish the Bank's tier 1 capital in compliance with relevant regulations. See "*Description of the Bank – Recent Developments*" for more details.

RISK MANAGEMENT

OVERVIEW

As a commercial bank, the Bank is subject to a number of risks, primarily including credit risk, market risk, liquidity risk, operational risk and compliance risk. The Bank has established a comprehensive risk management system that covers the identification, assessment, measurement, monitoring, reporting, mitigation and control of various risks the Bank may encounter. Its overall risk management principle is to balance risk and returns with sustainable growth and sound asset quality in order to achieve a reasonable level of risk-adjusted returns.

The Bank has maintained a focus on risk management since its inception in 1995. In 2003, the Bank established a risk management department in its head office. In 2005, the Bank formalised its policies and procedures for the management of credit risk, market risk, operational risk and liquidity risk and established an authorisation and reporting mechanism between its head office and branches, with a focus on internal and external audits. In 2007, the Bank further adjusted its risk management system and consolidated other credit-risk management related departments into the risk management department and the asset maintenance department in its head office, set up a risk management commission and a Loan Approval Committee, and established a separate risk management commission and a risk management department in each branch.

The Bank restructured its risk management system from April to July 2012 to further refine its risk management framework and enhance its ability to identify, assess, measure, monitor, report, mitigate and control risks. In addition to the Risk Management Committee under the board of directors and the risk management commission under the general office of the President, the Bank established sub departments and teams specialised in risk management within all the core business departments. The Bank also restructured the departments with risk management functions and enhanced its "Three Lines of Defence" against risks. The Bank focuses on prudent risk preference and credit policies and strives to fully cover all major risks relating to its business. In order to further advance its risk management capabilities, the Bank has continuously been adopting and refining various risk management methodologies, such as economic capital management, risk exposure limits, risk pricing and fund transfer pricing, with a focus on the monitoring and control of risks related to new products and services.

RISK MANAGEMENT STRUCTURE

Board of Directors and its Special Committees

The Bank's board of directors bears ultimate responsibility for risk management, and is responsible for determining overall risk management strategies as well as making important decisions for the Bank. The board of directors performs risk management functions through its Risk Management Committee, Related Party Transaction Control Committee and Audit Committee.

The Risk Management Committee is primarily responsible for reviewing its risk management strategies and policies, evaluating the operating procedures and effectiveness of its risk management and internal control departments, supervising the implementation of control measures by the management, monitoring its measures to identify, measure, monitor and control relevant risks, and making recommendations to its board of directors accordingly.

The Related Party Transaction Control Committee is responsible for the review, management and supervision of its connected party transactions, as well as the assessment of the potential risks they may give rise to.

The Audit Committee is primarily responsible for monitoring its internal control function, overseeing the implementation of its critical accounting policies, evaluating its internal audit operations and external auditors, reviewing audit reports and associated financial statements and making recommendations to its board of directors accordingly.

For further details of the respective responsibilities of its board of directors and its Risk Management Committee, Related Party Transaction Control Committee and Audit Committee, see "*Directors, Supervisors and Senior management – Board Committees*".

Board of Supervisors

The board of supervisors supervises its board of directors and senior management and examines its financial activities. The Supervision Committee under its board of supervisors is primarily responsible for monitoring and supervising the risk management by its board of directors and senior management and evaluating the effectiveness of its comprehensive risk management.

See "*Directors*, *Supervisors* and *Senior Management – Supervisors*".

Senior Management and Special Commissions

The Bank's senior management assumes the highest level of execution power in risk management, is responsible for the strategy, policy and measurement of risk management at the Bank to achieve the full coverage of all major risks relating to its business and effectively control the risks.

The Bank has five special commissions related to risk management under its senior management, namely, the risk management commission, the asset and liability management commission, the information technology management commission, the accountability and supervision commission and the product and service review commission, which are responsible for organising, coordinating, reviewing, determining and supervising various risk management tasks.

- *Risk Management Commission*. The risk management commission is responsible for analysing and assessing its bank-wide risk profile; formulating its bank-wide comprehensive risk management plans; implementing the "Three Lines of Defence" risk management system; reviewing and determining its risk management measures, strategies and policies; coordinating the development and implementation of tools to quantitatively evaluate and measure various risks under the New Capital Rules; and leading its bank-wide comprehensive risk management efforts. The risk management commission is also responsible for the management of credit risk, operational risk and reputational risk. The risk management commission has two sub-commissions, namely the reputation risk management commission and the non-performing loan disposal commission.

- *Asset and Liability Management Commission*. The asset and liability management commission is responsible for formulating and adjusting strategies related to its operational and financial plans; reviewing and evaluating the bank-wide risk profile and risk management capabilities with respect to liquidity and market risks; reviewing and approving plans, policies, reports and decisions related to asset and liability management; and reviewing pricing strategies and policies for its assets and liabilities. It is also the decision-making body concerning liquidity risk and market risk management.

- *Information Technology Management Commission*. The information technology management commission is responsible for the management of information and technology risk to ensure the consistent and reliable business operation.

- *Accountability and Supervision Commission*. The accountability and supervision commission is responsible for the establishment and supervision of its bank-wide accountability system.

- *Product and Service Review Commission.* The product and service review commission is responsible for the review, identification of potential risks and proposing related risk control measures with respect to the new products, business and services, in order to ensure the effective implementation of the risk control requirements imposed by the regulatory authorities for new products, business and services offered by commercial banks.

Three Lines of Defence Risk Management in the Head Office

Among the functioning departments in its head office, the Bank has deployed three lines of defence to comprehensively manage its risks. The three lines maintain tight coordination and close communication with each other while focusing on their own responsibilities.

The First Line of Defence – Direct Risk Management

The first line of defence in its head office includes the corporate banking department, the retail finance department, the Small Enterprises financial service centre, the financial markets department, the accounting and settlement department and the operation management department. These departments are responsible for direct management of all types of risks arising from its business operations with a focus on credit risk, market risk and operational risk.

The comprehensive administration and operational support departments in its head office, including the human resource department, the financial planning department, the legal department and information technology department, are also responsible for direct management of the operational risk, market risk, liquidity risk, reputational risk, information technology risk and other risks.

The human resource department, the information technology department and the security and guardian department provide relevant resources and support to the risk management activities of other departments in its head office, to the extent of their respective duties and specialties, in addition to their regular responsibilities.

The Second Line of Defence – Further Risk Management

The second line of defence in its head office includes risk management department, credit approval department, risk monitoring department and legal and compliance department. The second line is responsible for the consistency and effectiveness of the bank-wide risk management implementation, as well as formulating general strategies, policies, procedures and standards for risk management. In particular, the second line strengthens the overall management of risks by supervising, reviewing and supplementing the direct management at the first line.

The primary functions of the second line include: (i) leading the promotion of its bank-wide comprehensive risk management system with the authorisation of its senior management; (ii) formulating risk management policies, systems and procedures applicable to the entire bank; (iii) formulating risk identification, evaluation, measurement, monitoring, control/mitigation and reporting procedures; (iv) coordinating bank-wide risk management and internal control; (v) examining, reviewing and assessing the effectiveness of its risk management and internal control; (vi) providing risk management training and assistance to other business lines, departments and all branches, in order to enhance their capabilities and performance of risk management duties; (vii) guiding, reviewing, monitoring and assessing the effectiveness of the first line with an aim to optimise its risk management and internal control initiatives; and (viii) consolidating and analysing its risk management status, submitting risk management reports and making recommendations to the senior management accordingly.

The Third Line of Defence – Supervision of Risk Management

The third line of defence in its head office includes the audit department and the supervision office, which are primarily responsible for supervising the first and second lines, as well as examining the effectiveness of their management and giving feedback.

The primary functions of the third line include: (i) inspecting and assessing the effectiveness of the operation of its bank-wide risk management system; (ii) monitoring the implementation of risk management policies; (iii) conducting independent evaluations of new risk management policies, procedures and operations; and (iv) reporting an assessment of risk management system operations and making recommendations to the board of directors and senior management accordingly.

Branch Level Risk Management Structure

The Bank's head office oversees all risk management activities, including those at its branch level. Its head office grants certain authorisations to its branches under the principle of prudence, and its vertical risk management extends to all of its branches. The Bank has established a risk management commission, a risk management department and a risk monitoring department in each of its branches, which report to the corresponding commission or department in its head office as well as the head of the branch. The Bank also designated a deputy manager at each branch to be in charge of risk management at the branch. Its branches implement the risk management policies formulated by its head office, which currently focus primarily on credit risk and operational risk management. The Bank also has a standard operation manual that covers authorisations and policies for credit extension, credit review and approval procedures and credit classification standards for its branches to follow and the Bank updates the manual from time to time. The Bank provides annual guidance on the loan portfolio of each branch based on the local economic condition, business scale and type of target customer and grant credit authorisation limits to each branch based on the business development capability, risk condition and internal control level of the branch.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss from the default by an obligor or counterparty when payments fall due. The Bank is exposed to credit risk primarily through its loan portfolio, investment portfolio, guarantees and various other on- and off-balance sheet credit risk exposures.

The Bank has set up a comprehensive credit risk management system to cover the entire business process, with established policies and procedures in key phases of the credit business that identify, assess, measure, monitor, mitigate or control relevant risks. The Bank aims to further strengthen its overall credit risk management capabilities through a variety of methods, including streamlining its credit approval process, establishing a bank-wide standardised authorisation and credit extension management system, upgrading its risk management instruments and information system, monitoring risk exposure and borrower concentrations and mitigating credit risk through the use of collateral and other arrangements.

Credit Risk Management for Corporate Loans

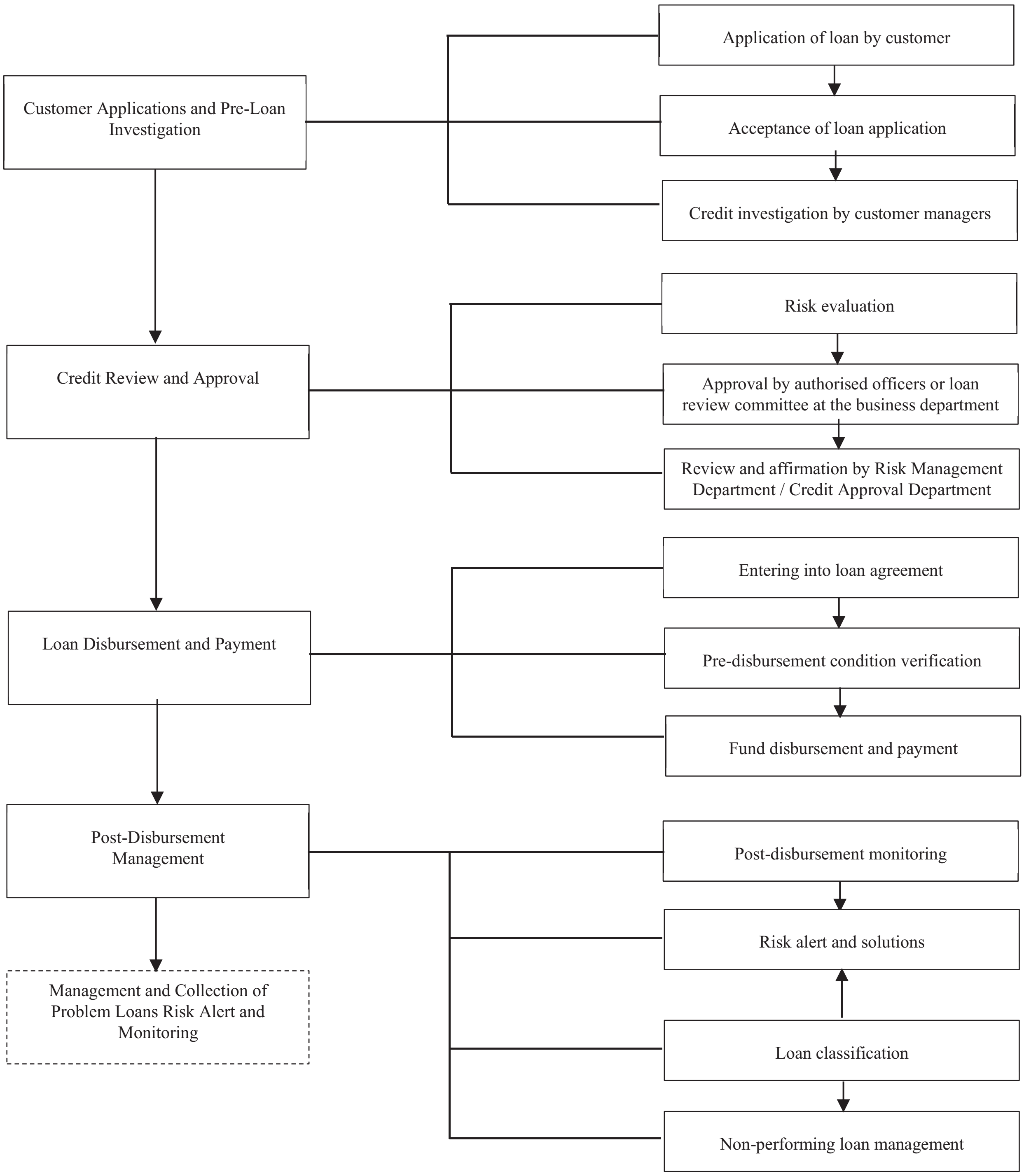
The Bank seeks to adjust its credit policies based on a number of considerations such as the PRC government's industry policies in a timely manner, the development of various industries and the overall effectiveness of its existing credit policies. The Bank also proactively adjusts its credit policies in line with the PRC government's macroeconomic policies. For example, since 2010, the PRC government has implemented certain restrictive measures with respect to the real estate industry and certain other industries suffering from overcapacity. In light of these measures, the Bank has timely adjusted its credit policies. Since 2011, the Bank has started to restrict the loan concentration in real estate, steel and photovoltaic industries. The Bank has further fine-tuned its real estate customer credit eligibility criteria and prioritised its lending to customers from key cities and of high quality. The Bank extends loans prudently to steel and photovoltaic industries. With respect to borrowers in the steel trading and photovoltaic industries, the Bank has tightened credit approval authorisations and managed its customers in steel trading industry by classifications.

In addition, its credit policies differentiate large enterprises and government institutions, SMEs and Small and Micro Enterprises. For example, a significant portion of its corporate loans are SME loans. In addition to standard credit risk management measures and procedures applicable to all credit extensions, the Bank focuses on the analysis of various non-financial factors of its SME customers when determining the risk profile of an SME customer, thereby reducing the credit risk associated with SME loans. Its knowledge of and past experience in dealing with SME customers allow it to identify creditworthy SME customers and control associated credit risk effectively.

In lending to government financing vehicles, the Bank applies the same review, approval and monitoring criteria as lending to other corporate customers. The Bank has clearly defined the approval standards for loans to government financing vehicles, and the Bank seeks to focus on government sponsored projects with sufficient cash flows and secured sources for loan repayments, such as projects sponsored by the governments of provincial or city levels and above with strong financial resources, and will not extend additional loans to financing vehicles of local governments below the county level (excluding the counties listed in the Top 100 Counties, a ranking of comprehensive strength by the National Bureau of Statistics of China).

Once the Bank formulates or adjusts its credit policies, its head office, branches, business departments for credit extension and the credit approval department will be timely informed of the changes in policies and begin to comply with them in credit reviews and approvals, allowing it to implement its policies effectively.

The following flow chart illustrates the basic process for its credit business to corporate customers as of the date of this Offering Circular:



Customer Applications and Pre-Loan Investigation

After a customer submits an application for a corporate loan, the relevant department will conduct an independent and prudent pre-loan investigation. Pre-loan investigations mainly involve collecting customer information, reviewing credit application materials and preparing a credit investigation report by its customer managers. The investigation report includes (i) the applicant's basic information, such as corporate structure, management quality and sources of financing, (ii) the applicant's status of operations and financial condition, (iii) the purpose of the loan, (iv) the category of the loan, and (v) the applicant's alternative sources of financing. In the investigation reports, the Bank requires the customer managers in charge of the investigation, or the investigators, to disclose potential risks known to them, propose measures in controlling such risks and give specific suggestions in terms of the principal amount, interest rate, term and other terms and conditions of the proposed loan. The investigators are also required to collect a specimen of the customer's corporate seal. The investigators should be responsible for the authenticity and integrity of the information in the investigation report.

Customer Credit Rating

The Bank approves credit to its customers based on both third-party and its own internal credit ratings, with attention paid to the third-party credit ratings. For customers from Shanghai, the Bank primarily refers to their credit ratings in the Enterprise Credit Investigation System provided by the PBOC. For customers from outside of Shanghai, or those who do not have valid third-party credit ratings, the Bank rates their credit with its own system.

In principle, the Bank rates all customers that have outstanding loans with us and that have provided guarantees to secure its loans on a periodic basis. The credit ratings assigned are generally valid for no more than one year. The Bank always assigns a credit rating to a new customer before granting credit to such customer. If there is a material change affecting a customer's repayment ability or creditworthiness, the Bank re-rates this customer. The customer credit rating results have been used in its credit approvals, loan classifications, loan loss provisioning, management of exposure limits, risk reporting and economic capital management.

Customers are generally subject to different standards on their credit reviews based on their credit ratings. For example, credit applications from large and medium-sized enterprises or government institutions below AA grade are subject to stricter scrutiny. For medium-sized enterprises below BBB grade and small enterprises below B grade, the Bank generally requests either collateral or pledge or a guarantee from a guarantee company approved by its head office for all of their loans.

Collateral Appraisal

For loans secured with collateral, the Bank conducts collateral appraisals prior to loan approval. The appraisal is usually performed by external appraisers. The Bank continuously monitors the external appraiser's work quality, and periodically re-examine their qualifications. Collateral satisfying certain requirements are exempted from external appraisal requirements, in which case the Bank evaluates their value based on its own internal investigation.

The Bank generally requires regular reappraisal of collateral. With respect to a third-party guarantor, the Bank assesses the guarantor's financial conditions, credit history and ability to meet its obligations in order to determine the appropriate guarantee amount.

Credit Review and Approval

Once the investigation process has been completed, the investigator submits a credit investigation report to the loan reviewers within the corporate banking department to evaluate credit risk. If the loan reviewers submit their evaluation reports with positive views, the applications are then subject to approval by the loan review division under the corporate banking department at either the branch or the head office level, depending on the value of the loans and risks involved. All loan applications except certain exempted immaterial or small-amount loans, upon approval by the corporate banking department, will be subject to review and affirmation by the credit approval department as the second line of defence before the Bank extends the loan to its customers.

Credit Risk Evaluation

After its loan reviewers at the corporate banking department conduct a thorough examination of the authenticity, legality and completeness of the investigation report, they will issue an evaluation report which includes an evaluation of the credit risk involved in the application. They are required to disclose the risks according to their best efforts and to provide the essential information required by the review officer to make informed decisions. They are responsible for the integrity, objectivity and prudency of the evaluation report.

The loan reviewers conduct the review primarily on the basis of the investigation report submitted by the investigators, as well as the knowledge they obtain through indirect channels about the customer, their upstream and downstream enterprises and related industries. During the process, its loan reviewers can consult with directors of the corporate banking department of its branches and head office or the director of the small enterprise financial service centre, and finalise the conclusion by taking their opinions.

The Bank has different standards to evaluate the risks relating to different types of loans. For example, for working capital loans, the Bank focuses on financial and non-financial factors of the customer, the intended use of loan proceeds and the overall risk control/mitigation plans. Meanwhile, its risk evaluation of fixed assets loans concentrates on predicting the repayment ability of the development projects, which are primarily determined by the returns and cash flow of the customer, as influenced by factors and uncertainties including the borrower, the promoter, the legality and compliance of the project, technological and financial feasibility, product market, financing scheme, sources of loan repayment, mortgage, insurance, policy changes and market fluctuations, all of which are under its consideration for the risk evaluation.

The loan reviewers are required to give explicit conclusions in the review report. A negative conclusion rejects the application, while review reports with a positive conclusion, which can be accompanied by certain suggestions from the loan reviewers such as lowering credit lines or inserting additional preconditions on the credit, enables the application to proceed to final approval.

Credit Approval

The Bank classifies its credit business by its materiality and risks involved into four categories: low risk business, routine business, special credit business such as loans to related parties, and zero authority business. Accordingly, different categories are approved by different levels of authority. Its branches can approve the first three types of credit business, while only its head office has the authority to approve zero-authority business.

In general, approvals are performed by its approval officers and the credit review committees for corporate banking of its head office and branches, each with a different level of credit approval authority. Approval officers and credit review committees are authorised to make loan approval decisions at their discretion after prudently reviewing both the investigation report and the review report. They are required to explicitly approve or reject an application, and in cases where the application is approved, they can impose additional restrictions on the credit and then submit to senior management with relevant authorisation for approval. The senior management has veto right and can impose additional restrictions on the credit approvals.

- *Approval officers*. Approval officers of the loan review division, at either head office or branch level, are the loan experts of the Bank and are subject to the recognition of their qualifications. Each approval officer is entitled to issue final approval for the credit business within the relevant authorisation.

- *Credit review committees*. The Bank has set up credit review committees under the corporate banking department in its head office and branches. Applications are subject to review by a committee of three or five, or up to seven in its head office, officers according to the loan amount and risks involved. The officers are obligated to express their opinions during the meeting of the credit review committee, and loan approval requires that more than two thirds of those attending the meeting must vote in favour of a loan application.

- The Bank follows special procedures when approving loans to related parties. The application of general credit business to related parties can be approved by the corporate banking department of the head office, followed by a filing with the Related Party Transaction Control Committee under the board of directors. For material credit business to related parties, the review officers need to conduct a preliminary review and then submit the application to the Related Party Transaction Control Committee for approval, followed by a final review of, and approval by, the board of directors.

Affirmation of Credit Approval

Except certain exempted immaterial or small-amount loans, all credit approvals by the corporate banking department, are subject to an independent affirmation by the credit approval department, which has a veto right. The credit approval department reviews the policy, the procedural compliance and key risk analysis of each credit approval report in order to reach a decision on whether or not to affirm such credit approval.

Loan Disbursement and Post-disbursement Management

The Bank disburses loans upon the completion of reviews of disbursement and payment-related criteria by the disbursement and payment review officers of its designated department-in-charge and the settlement officers of its accounting departments. Its post-disbursement management includes account monitoring, on-site and off-site inspection, periodic analysis of the borrower's financial conditions and results of operations, monitoring of the borrower, monitoring of collateral and guarantor, risk alert and management, and recovery of loans, all of which are primarily undertaken by the post-disbursement management division under the corporate banking department and other relevant business departments.

Management of Drawdown

Before signing a credit agreement, the customer managers of the originating business units are responsible for ensuring satisfaction of the conditions precedent specified in the agreement for loan disbursements and drawdowns. The loan disbursement officers of the head office or branches review the credit agreement and the application of conditions for loan disbursement and usage and the compliance with the credit agreement, collateral arrangement and other loan disbursement procedures. Upon their review and approval, the loans will be forwarded to its accounting departments for the settlement officers to review, confirm the satisfaction of disbursement and payment-related criteria, and process the loan drawdown procedures.

Post-disbursement Monitoring

The Bank employs a variety of methods for conducting post-disbursement monitoring. By conducting scheduled or non-scheduled on-site or off-site inspection, the Bank keeps monitoring the customers' status, business operations and financial conditions, loans, contingent liabilities and other liabilities and monitoring collateral and guarantor. The frequency of its regular post-disbursement monitoring varies depending on the materiality of the risks.

Risk Alert

The Bank has set up a risk alert mechanism at all of its branches and sub-branches. The Bank aims to promptly detect and mitigate risks by monitoring the borrower's account information, financial reports, information about their suppliers and customers, and industry and macroeconomic policies. Its customer managers submit post-loan risk evaluation reports periodically, which contain summaries of risk alert information and comprehensive analysis of the borrower's financial and non-financial factors, use of the loan proceeds, supervision of funds, status of the guarantor, as well as updates on the industry. The relevant business departments such as the corporate banking department and the small enterprises financial service centre at the branch level are responsible for reviewing risk alert information and reporting to the upper level on a timely basis upon the receipt of a risk alert signal.

Its risk mitigation solutions include a higher frequency of inspections and early preparation of asset protection measures. Customer managers and designated risk management personnel are required to report to the heads of their respective departments any sign of risk alert. The corporate banking department of the branch that manages the relevant customer account, the risk management department and others with risk management responsibilities in turn are required to formulate risk mitigation solutions, including appropriate asset maintenance action. Upon authorisation from relevant branch heads, the business department involved at the branch is required to start implementing the risk mitigation measures.

Loan Classification

The Bank classifies its loans using a five-category loan classification system in accordance with the guidelines set forth by the PRC regulators. The five categories are normal, special mention, substandard, doubtful and loss. The Bank assesses its loans for impairment, determines a level of allowance for impairment losses and recognises any related provisions made in the current year/period using the five-category classification system.

Termination of Relationships with Potential High-Risk Customers

The Bank has established an exit management mechanism in order to optimise its portfolio of borrowers and prevent potential risks from materialising. Borrowers with potential risks refer to those who are currently experiencing or are expected to experience adverse changes in their business or financial condition in the near future that may affect their loan repayments. For these borrowers, the Bank may demand repayment of loans ahead of their contract maturities or the Bank may reduce their respective credit lines.

The Bank identifies borrowers with potential risks from among those whose loans are originally classified as "normal" or "special mention". Its head office adjusts, on a timely basis, the parameters and indicators for identifying customers with potential risks, in accordance with macroeconomic conditions, industry policies and its business strategies. Its branches and sub-branches develop annual customer exit plans and compile exiting customer lists.

Non-performing Loan Management

The Bank proactively manages non-performing loans in order to reduce risks relating to its loan portfolio and improve its recovery on disposals.

The Post-Disbursement Management Division under the corporate banking department of the head office is responsible for managing its non-performing loans. The Bank seeks to recover its non-performing loans through various means, including collection, foreclosure on collateral, legal or arbitration proceedings, third-party agent collection, waiver of interest or certain principal, write-off, loan restructuring and sales of the non-performing loans.

Credit Risk Management for Retail Loans

Pre-Loan Review

Once a retail loan application is received by the originating branch, a customer manager will conduct due diligence on the loan applicant by collecting the applicant's profile, income information and purpose for the loan, verifying the authenticity and integrity of such information, and reviewing the creditworthiness and compliance of the loan with the requirements of the Bank. In particular, the Bank calculates the applicant's Instalment-to-Income ratio for housing mortgage loans, and debt-to-income ratio for credit card applicants.

Its review and approval of retail loans are generally based on the applicant's score calculated by us. The score primarily derives from the applicant's credit rating, security index by collateral of the loans, and the applicant's ability to repay the principal and interest. The Bank acquires applicants' credit rating information from the Personal Credit Information Database of the PBOC. For retail loans secured by collateral, the Bank generally engages external institutions to conduct appraisal, the result of which will be included in its calculation of the applicant's overall score.

Credit Review and Approval

The customer managers in charge of the investigation conduct a preliminary review for all retail loan applications. The credit risk management division under the retail finance department conducts a risk evaluation on the investigation report prior to final approval. Retail customers are subject to comprehensive credit risk evaluation primarily concerning their cash income, supplemented with considerations regarding their personal credit history, income certificates and mortgage or pledge.

The Bank classifies its retail credit business into low-risk business, routine business and zero-authority business. Only its head office has the authority to approve zero-authority business. Applications for large loans or loans involving high risks are required to be reviewed and approved by a credit approval committee as well as a credit approval authority from a higher level. In cases where the credit risk management team at the branch level deems that they lack the authority for final review, they submit the application to the credit review committee at the branch level. The committee then holds a meeting to review the application and can grant a final review decision. If the committee deems that the application requires approval from a higher authority, they submit it to the head office for a final review.

Similar to the corporate loan review, credit approvals for retail loans by the retail finance department are generally subject to an independent re-affirmation by the credit approval department, which has a veto right.

Loan Disbursement and Post-disbursement Management

After a loan application is approved, the originating branch assigns designated personnel to ensure the satisfaction of the conditions precedent for loan disbursement, register and record collateral and execute loan agreements.

Its post-disbursement management of retail loans is conducted by the post-disbursement management team under the retail finance department. The Bank conducts regular or ad hoc on-site inspection and off-site supervision through which the Bank keeps track of risk factors affecting the repayment ability of the borrowers as well as the value of collateral. For personal loans for business operations, the Bank conducts post-disbursement inspection on a quarterly basis while for loans of large amounts and other loans involving high risks, the Bank conducts post-disbursement inspection at least on a semi-annual basis.

The five-category classification system that the Bank established for retail loans, automatically classifies its retail loans into one of five categories based on the number of months by which the payment of principal or any interest is overdue or the satisfaction of any additional factor in a specific category. Its risk monitoring departments may jointly adjust the classification in response to risk data gathered through loan monitoring.

Credit Card Risk Management

The Bank has continuously been improving its credit card risk management system aiming at (i) complying with regulatory requirements, (ii) optimising its credit card asset quality, (iii) strengthening the guidance of risk management policies to its credit card operations and (iv) improving its risk alert system at both the branch and head office levels. Under the general principles of credit card risk management, the Bank manages credit risk arising from its credit card business through the following measures:

- setting different credit limits according to the risk profiles of each credit card customer to mitigate risks at a preliminary stage;

- strengthening its statistical analysis capabilities, developing credit rating data modelling and continuing to optimise its risk management policies;

- implementing a risk alert system to detect and prevent credit card fraud; and

- optimising its risk monitoring system to enhance its capabilities to monitor and mitigate risks on a real-time basis.

Credit Risk Management for Treasury Operations

Its treasury operations involve investments in treasury bonds, government bonds, financial institution bonds, corporate bonds, commercial paper, medium-term notes and asset-backed securities. Its credit risk management for treasury operations is primarily conducted by its financial markets department in accordance with its credit risk management policies, procedures and systems.

The Bank conducts credit risk management with respect to its treasury operations primarily through the management of credit lines for counterparties. The Bank assigns a total credit limit for domestic and foreign financial institutions and set sub-limits for various business lines. Particularly, the credit lines to financial institutions are granted by the market risk management division under the financial markets department, and those of enterprises are under the control of credit divisions under the corporate banking departments.

The Bank strictly implements its credit limit for its counterparties throughout the process of its treasury operations. The trading divisions (交易前臺) are required to submit information about the proposed counterparties to the risk control divisions (風險中臺) for credit inspection, and they can only finalise transactions with counterparties possessing sufficient credit lines. The Bank also has an established post-credit monitoring system, and are able to timely react to the risks arising from the counterparties. In such cases, the risk control divisions will report to the president's office and take mitigation measures, including reducing or suspending the credit lines of those counterparties.

In addition, its financial markets department works closely with other departments for an integrated risk monitoring system in treasury operations. The market risk management division periodically conducts impairment tests, classifies its treasury operations according to its five-category classification, and submits the results to the risk monitoring department of its second line of defence for review. Once the results are confirmed, its finance and planning department will provide allowance for impairment loss as required by its accounting policies.

Information Technology in Credit Risk Management

The Bank upgrades its CRMS to assist in measuring credit risks. The CRMS is its primary IT platform for credit business operations as well as its primary tool for credit risk management. It is used to record and manage its on-balance sheet and off-balance sheet corporate credit business in both Renminbi and foreign currencies.

Its CRMS has four major functions that enable the Bank to integrate the management of its corporate credit business. It covers corporate loans, discounted bills, acceptances, letters of credit, letters of guarantee and other main credit products the Bank offers. It also supports online management of its entire credit management process, including disbursement and post-disbursement management, as specified below:

- *Information collection*. CRMS collects important information relating to its on- and off-balance sheet corporate credit business, including customer profiles, credit lines, credit contracts, loan disbursements, receipts and accounts, risk classifications of assets, post loan reviews and risk alerts.

- *Management and support*. By leveraging the information collection and data analysis capabilities of CRMS, the Bank establishes an independent and centralised management system of collateral, risk alerts, credit assets classification and credit ratings. Additionally, the statistics and analysis of CRMS support its data administration and inquiry of financial reports.

- *Accounting information communication*. The connection between CRMS and its central transaction system enables CRMS to both collect and keep a record of customer's financial data, thus integrating its risk management with its accounting. Prior to disbursing the loan from its central transaction system, the operating staff must input the information in CRMS and print out the notice sheet and submit it to the authorised department for review. After receiving approval, the T24 system executes the disbursement and transfers the transaction information to the data warehouse by close of business every banking day. The data warehouse filters and consolidates the received data with accounting information, and transfers the accounting information in relation to the credit business back to CRMS.

- *Enterprise credit investigation support*. CRMS is one of the data sources of its submission to the PBOC's enterprise credit investigation system. After CRMS completes processing the data of its customers and their business operations and collaterals, it submits the information to the PBOC on a daily basis.

MARKET RISK MANAGEMENT

Market risk arises from movements in interest rates, exchange rates, commodity prices, stock prices and other market changes that affect market risk-sensitive instruments.

The Bank is exposed to market risk primarily through the assets and liabilities on its balance sheet, as well as its off-balance sheet commitments and guarantees. The major types of market risk that may impact its business are interest rate risk and exchange rate risk. Interest rate risk refers to the risk of losses in a bank's income or economic value arising from adverse movements in statutory or market interest rates. Exchange rate risk means that the Bank may experience losses because of mismatches in the currency denomination of its assets and liabilities, or from the exposure of its foreign exchange derivative transactions.

Its market risk management covers the entire process of identifying, measuring, monitoring and controlling market risk and aims to maximise its returns within the limits of its well-defined risk tolerance. The Bank primarily conducts market risk management through (i) exposure limit management, which is the interest rate limit for bank accounts, bond, interest rate derivatives, exchange rate derivatives and gold for trading accounts, and bond and foreign currency exposure limit for bank accounts; (ii) authorisation management and (iii) focus on monitoring and control market risk. The Bank seeks to improve its market risk management through:

- optimising the exposure limits for its market risk management, including quantitative analysis of market risk in association with its bank account and trading account;

- improving the instrument measuring market risk as well as designing and implementing a market risk stress test plan;

- optimising the credit line limits, access limits, stop-loss, profit-locking-in limits and concentration limits;

- improving the research and analysis of market risk in connection with new products so as to provide more comprehensive feedback for product development;

- monitoring share price risks, currency risk on real-time basis;

- reducing the interest rate risk of the bank accounts through optimisation of their repricing periods; and

- introducing an evaluation system for market risk management to ensure the effective implementation of the policies, procedures and operation manual of market risk management.

The financial markets department and the financial planning department undertake the primary responsibility for its market risk management, and the risk monitoring department is responsible for independent monitoring and controlling of market risks arising from its business. The risk management department oversees its market risk management as part of its comprehensive risk management responsibility.

Interest Rate Risk Management

Interest rate risk is the exposure of a bank's financial condition to adverse fluctuations in interest rates. The primary interest rate risks the Bank faced are mismatches of duration or repricing periods of its assets and liabilities as well as risks arising from the changes in fair value of financial instruments.

Mismatches may cause net interest income or the market value of its assets to be adversely affected by changes in the prevailing level of interest rates. The Bank uses quantitative measures such as gap analysis and duration analysis to monitor the interest risk for its entire assets and liabilities portfolio, and further manage its interest rate risk through optimising the duration, structure and interest rate of its assets and liabilities portfolio, defining clear authorisation limits and setting market risk limits. The Bank also adopts quantitative measures such as revaluation of market value, duration analysis, sensitivity analysis, scenario analysis, value-at-risk analysis, stress-testing analysis to measure the risks arising from the changes in fair value of financial instruments, and strive to effectively manage such risks by imposing exposure limits for market risks. The Bank also conducts certain derivative transactions to reduce its exposure to interest rate risk.

The short-term objective of its interest rate risk management is to increase its net interest income, and its long-term goal is to increase the market value of its assets.

Exchange Rate Risk Management

Exchange rate risk primarily results from mismatches in the currency denomination of its assets and liabilities, either on- or off- balance sheet, and currency position mismatches caused by foreign currency transactions.

The Bank has a small portion of business and assets denominated in foreign currencies, and its overall exposure to foreign exchange risks is relatively small. Its strategy is to match its asset and liability denominated in each currency and to maintain the balance of its asset and liability denominated in each currency, thus lowering and controlling its overall exposure to foreign exchange risks. The Bank controls its open position by setting limits for its foreign exchange settlements, sales and exposures, as well as performing timely back to back transactions. The Bank also conducts certain derivative transactions to reduce its exposure to exchange rate risk.

Information Technology in Market Risk Management

The Bank launches its Fund Transaction and Risk Management System (the "**FTRMS**"), the information system for the management of market risk of treasury operations, in June 2012. The FTRMS is a comprehensive system that integrates the function of treasury operations, transaction risk management and financial accounting and covers a variety of treasury transactions, including interbank lending, interbank deposits, repurchase, bond investments, discounted bill, foreign exchange trading, derivatives and management of wealth management assets. The FTRMS provides support for the entire transaction process from transaction execution, risk management and account settlement and hence improves the efficiency of processing treasury operations and risk management capabilities. The FTRMS is connected with the database of various RMB and foreign currency trading systems so that the trading information could be promptly input into the FTRMS to ensure the data are up-to-date and accurate.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk of that, although a bank is solvent, it may be unable to obtain sufficient funds in a timely manner, or at a reasonable cost, to cope with asset growth or settle due and payable debts. Factors affecting its liquidity include the term structure of its assets and liabilities and changes of banking industry policies, such as changes in the requirements relating to the loan-to deposit ratio and the statutory deposit reserve ratio. The Bank is exposed to liquidity risk primarily in the funding of its lending, trading and investment activities, as well as in the management of its liquidity positions. The primary objective of its liquidity risk management is to ensure that the Bank is able to meet its payment obligations and fund its lending and investment operations on a timely basis. Its liquidity management strategies include:

- monitoring external economic and financial environment, strengthening liquidity analysis and prediction;
- focusing on the change in capital flow in connection with the liberation of interest rates;
- improving the pre-warning mechanism for large amounts of capital flow and the position management of the bank and each business line;
- improving the diversity of assets and maintaining an appropriate mix of short-, medium and/or long-term assets;
- conducting periodical liquidity stress tests to identify potential liquidity risks and prepare preventive measures to ensure compliance with liquidity regulatory requirements;
- evaluating and monitoring liquidity risk through a series of key indicators including the liquidity ratio and terms and percentages of its assets, liabilities, loans and deposits;
- improving the comprehensive management of liquidity risk, including cash flow management, limit management and centralised management;
- focusing on maintaining stable sources of funding and increasing its core deposits, increasing allocation of quality liquidity assets, maintaining a reasonable provision level and accessible financing channels; and
- timely reducing its liquidity risk through targeted liquidity risk mitigation measures.

OPERATIONAL RISK MANAGEMENT

Operational risk represents the risk of loss associated with deficiencies and failures of internal processes, personnel and information systems, or external events. Operational risk also includes legal risk but does not include strategic or reputational risk. Controlling operational risk is important to avoiding both financial and reputational loss. The operational risk that the Bank faces primarily includes, among others, internal fraud, external fraud, damages to property, disruptions to its operations or information technology systems, problems associated with transaction execution and closing as well as business processes, employment policy and workspace safety, and products and business operations. Since 2011, the Bank has implemented initiatives to streamline its business and operational processes, centralise its back office management, establish the three lines of defence for operational risk, and proactively promote the application of management instruments such as operational risk control self-assessment (RCSA) and a key risk indicator system for operational risk, in order to enhance its capabilities in the identification, evaluation, measurement, monitor, control/mitigation and reporting of operational risks.

The Bank identifies operational risk through the process analysis methodology based on historical data and past operational experience, which identifies the business areas that may be subject to operational risk, locates potential risk factors and their relevant risk indicators, and determines the key components necessary to control the relevant risk. The Bank then evaluates the operational risks both quantitatively and qualitatively to determine its operational risk tolerance. The Bank also conducts a periodical operational risk identification process and systematically review risk factors and risk indicators that have emerged in its operations. Based on the results of the identification, evaluation and review of operational risk, the Bank sets its annual targets and plans for operational risk control and optimisation and implementation procedures.

The Bank has established a bottom-up reporting system for operational risk. Once a material operational risk occurs, the responsible branch or department is required to report the material operational risk in a timely manner through its operational risk reporting lines. The operational risk reporting system helps to pinpoint weak links in operational risk control through collecting data of losses and identifying spread of losses, and can be used to verify the results of RCSA so as to evaluate the quality of the RCSA.

The Bank also focuses on improving its operational risk management by strengthening employee management. The Bank provides trainings for employees, such as job orientations for new employees and ongoing operational compliance trainings for all employees, and regularly testing its employees on such trainings. Its employee manual and various internal policies and rules contain requirements designed to avoid financial loss and maintain its reputation. The Bank has also adopted a mandatory rotation policy for certain key positions.

COMPLIANCE RISK MANAGEMENT

Compliance risk refers to the risk of legal sanctions, regulatory penalties, material financial loss, or reputational damage to a commercial bank resulting from failure to comply with applicable laws and regulations as well as relevant industry standards. Compliance risk management is one of its core risk managements and an important part of its overall risk management activities. The Bank strives to effectively manage and control its compliance risks. The board of directors is ultimately responsible for matters relating to compliance risk arising from its operations. The board of supervisors supervises the compliance risk management by the board of directors and the senior management. The senior management undertakes the direct responsibilities for its bank-wide compliance risk management activities and though the designated person in charge of compliance, the legal and compliance departments assist the senior management in identifying and managing its compliance risks. To ensure a strict compliance with laws and regulations and to support its prudent and sustainable operations, the Bank has established, and are committed to continuing to strengthen, its bank-wide compliance risk management system and a comprehensive compliance management framework to effectively identify, evaluate, prevent, control and rectify compliance risks.

Anti-money Laundering

In accordance with relevant legal and regulatory requirements on anti-money laundering, the Bank has formulated rules, regulations and policies for the monitoring, reporting and managing money laundering risk, which are reviewed periodically and revised as necessary to satisfy its own risk management requirements and those of relevant regulators.

The Bank provides regular training on anti-money laundering to its employees to strengthen their compliance awareness and skills. The Bank is committed to fulfilling its reporting obligations under anti money-laundering laws and have been cooperating with regulatory authorities to carry out anti-money laundering investigations. The Bank systematically carries out customer due diligence and collect customer information and transaction records according to applicable laws and regulations. The Bank seeks to continue to improve its anti-money laundering capabilities and its compliance with bank-wide anti-money laundering policies and procedures through reinforcing the implementation of the "know-your-customer" procedures and standardised operational processes, improving its information collection and processing capabilities relating to large and suspicious transactions and strengthening its review and reporting of these transactions, as well as enhancing the functionality of its anti-money laundering information system to generate risk alerts on a timely basis.

INTERNAL CONTROL

The Bank maintains a three-tiered internal control management system which consists of the board of directors, which is responsible for decision making, its senior management, which is responsible for the implementation, and the board of supervisors, which is responsible for the supervision and evaluation. The Bank has well established risk monitoring and risk management mechanism for the identification and control of credit risks and market risks, and are improving its risk management capabilities of operational risk, compliance risk and liquidity risk. Its internal control policies and procedures and related business authorisations and approvals are designed to meet its operational scale and business development. The Bank also focuses on the internal information sharing and communication. The Bank has established information management policies, which cover the methods and procedures for the identification, collection, processing, communication, passage and disclosure of internal and external information, to ensure the timely delivery of the true and reliable information to the senior management.

INTERNAL AUDIT

The Bank has established a designated internal audit function, which follows a vertical reporting line. Its internal audit office, or the internal audit department, perform audits and evaluations on its operations and management, business activities and financial performance. Its internal audit offices are independent from its business departments and directly report to its board of directors and are required to follow the business instructions of the Audit Committee of its board of directors. The internal audit department is responsible for the organisation, management and reporting of its bank-wide internal audit efforts. The internal audit department also manages the audit offices in each branch which perform internal audits in their respective specified areas.

Its internal audits are organised in an effort to promote its compliance with the applicable laws and regulations; improve its internal control system and maintain its risk exposures within an acceptable range; and improve its operational management capabilities to achieve its business goals and increase its value.

SUBSTANTIAL SHAREHOLDERS

The table below sets forth shareholding information on the ten largest shareholders of the Bank as of 30 June 2020:

Name of shareholders	Approximate percentage of share capital (per cent.)	Number of shares held
Shanghai Alliance Investment Company Limited (上海聯和投資有限公司)	14.68	2,085,100,328
Shanghai International Port (Group) Company Limited (上海國際港務(集團)股份有限公司)	8.30	1,178,744,443
Banco Santander, S.A. (西班牙桑坦德銀行有限公司)	6.54	929,137,290
TCL Corporation (TCL 集團股份有限公司)	5.58	792,386,855
China Jianyin Investment Company Limited (中國建銀投資有限責任公司)	4.84	687,322,763
China Shipbuilding International Trading Company Limited (中船國際貿易有限公司)	4.08	579,764,799
China Ping An Life Insurance Company Limited – universal – personal insurance (universal) (中國平安人壽保險股份有限公司－萬能－個險萬能)	3.49	495,270,716
Shanghai Commercial Bank Limited (上海商業銀行有限公司)	3.00	426,211,240
Hong Kong Securities Clearing Company Ltd. (香港中央結算有限公司)	2.47	350,465,928
Shanghai Jing'an District Finance Bureau (上海靜安區財政局)	2.05	290,856,868
Total	**55.03**	**7,815,261,230**

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

As of the date of this Offering Circular, the Bank's board of directors is comprised of 18 members. There are three executive directors, nine non-executive directors and six independent non-executive directors. According to the Bank's articles of association, the Bank's directors are elected at shareholder general meetings for a term of three years, which is renewable upon re-election. The chairman and the vice chairman of the board of directors are elected by simple majority of the board of directors. Mr. Jin Yu is the Chairman of the Bank's Board of Directors, and is responsible for the business strategy and overall development.

The following table sets forth information regarding the Bank's directors as of the date of this Offering Circular:

Name	Age	Position/Title
Jin Yu	55	Chairman of the board and executive director
Shi Hongmin	51	Executive director
Ye Jun	47	Non-executive director
Ying Xiaoming	52	Non-executive director
Gu Jinshan	58	Non-executive director
Yuk Hung Antony Hung	61	Non-executive director
Zhuang Zhe	48	Non-executive director
Li Chaokun	54	Non-executive director
Du Juan	50	Non-executive director
Kwok Sek-chi	67	Non-executive director
Gan Xiangnan	50	Non-executive director
Wan Jianhua	64	Independent non-executive director
Guan Tao	49	Independent non-executive director
Sun Zheng	62	Independent non-executive director
Xu Jianxin	64	Independent non-executive director
Gong Fangxiong	56	Independent non-executive director
Shen Guoquan	55	Independent non-executive director

Mr. Jin Yu, aged 55, is the Bank's board chairman and executive director. Currently he is also the secretary of the Bank's party committee. He is also concurrently serving as the director of Shenlian International Investment Co., Ltd. and director of Shanghai Commercial Bank Limited. Mr. Jin has over 20 years of work and management experience in the commercial banking industry in China and overseas. He previously served a number of roles at CCB, including assistant to the general manager and deputy general manager of the banking department of the Shanghai Branch, deputy general manager and general manager of the international business department of the Shanghai Branch, general manager of the banking department of the Shanghai Branch, vice president of the Shanghai Branch, general manager of the Singapore Branch, general manager of the international business department of CCB. He then joined the Bank and served as the secretary of its party committee, vice chairman and president. He was also the board chairman of BOSC Asset Management. Mr. Jin was accredited as a senior economist by the Economics Series Senior Professional Qualification Assessment Committee of China Construction Bank Corporation (中國建設銀行股份有限公司經濟系列高級專業技術職務任職資格評審委員會) in December 2004. Mr. Jin received a bachelor's degree in non-ferrous metallurgy from Shanghai University (formerly known as Shanghai University of Technology) in July 1986 and a master's degree as well as a doctorate degree in economics from Fudan University in July 1991 and July 2007, respectively.

Mr. Shi Hongmin, aged 51, is the Bank's executive director since October 2018. He is currently a member of the Bank's party committee, the vice president and the chief financial officer of the Bank, and the director of China UnionPay Co., Ltd. and chairman of the board of directors of Shanghai Shangcheng Consumer Finance Co., Ltd. Mr. Shi previously served a number of roles at CCB, including the executive deputy director of the finance division, executive deputy director of the general division, executive deputy director of the finance section of the office of joint stock reform leader group, senior manager of the policy and system division of the finance and planning department, vice president of No. 1 Sub-branch of the Shanghai Branch, senior manager of the accounting and settlement division of the Credit Card Centre, and assistant to general manager and deputy general manager of the Credit Card Centre. He also served as the director of BOSC Asset Management. Mr. Shi was accredited as a senior economist by the Economics Series Senior Professional Qualification Assessment Committee (經濟系列高級專業技術職務資格評審委員會) of China Construction Bank Corporation in December 2003. Mr. Shi received a bachelor's degree in electrical and control engineering and a master's degree in engineering in technical economics from Tsinghua University, in June 1992 and June 1997, respectively.

Mr. Ye Jun, aged 47, is the Bank's non-executive director since July 2009. He is also concurrently serving as the general manager of Shanghai Alliance Investment Ltd., chairman of the board of supervisors of Shanghai Information Investment Inc., chairman of the board of directors of Shanghai New Margin Venture Capital Co. Ltd., vice chairman of the board of directors of Shanghai Zizhu High-Tech Industrial Development Zone (Group) Co., Ltd., a director of Shanghai Huahong (Group) Co., Ltd., a director of Shanghai Huali Microelectronics Corporation, chairman of the board of directors of Shanghai Alliance Financial Service Ltd., a director of Sino-US Metlife Insurance Co., Ltd., a director of Shanghai Everdisplay Optronics (Shanghai) Co., Ltd., chairman of the board of directors of Shanghai Xuantai Pharmaceutical Technology Co., Ltd., chairman of the board of directors of Sinotherapeutics Inc. and Shanghai Zhaoxin Semiconductor Co., Ltd., chairman of the board of directors of Shanghai Joinus Information Technology Co., Ltd., chairman of the board of the directors of Shanghai Liantong Network Communication Technology Inc., chairman of the board of the directors of QST Corporation and executive director and general manager of Shanghai Alliance Asset Management Ltd. Mr. Ye previously served as deputy manager and manager of the investment banking department, manager of the business development department, assistant to the general manager, manager of the financial services and investment department and deputy general manager of Shanghai Alliance Investment Ltd. and chairman of the board of directors of Shanghai Wicresoft Co., Ltd. Mr. Ye was accredited as an economist by Shanghai Qualification Examination Centre (上海任職資格考試中心) in November 1999. Mr. Ye received a bachelor's degree in industrial trading from Shanghai Jiaotong University in July 1995 and a master's degree in business administration from Shanghai Jiao Tong University in January 2003.

Mr. Ying Xiaoming, aged 52, is the Bank's non-executive director. He is also concurrently serving as the deputy chief economist and supervisor of Shanghai Alliance Investment Ltd., supervisor of Shanghai Huali Microelectronics Corporation, director of Shanghai APACTRON Particle Equipment Co., Ltd., supervisor of Shanghai Huahong (Group) Co., Ltd., supervisor of Shanghai Zhongke Shenjiang Electric Vehicle Co., Ltd., supervisor of Tianjin STL Energy Technology Co., Ltd., supervisor of Shenzhen Zhongke Qianghua Technology Limited, director of Shanghai Zhaoxin Semiconductor Co., Ltd., supervisor of Sino-US MetLife Insurance Co., Ltd., director of Shanghai Joinus Information Technology Co., Ltd., vice chairman of the board of directors of Shanghai INESA Intelligent Electronics Co, Ltd., director of Shanghai Information Investment Inc., director of Shanghai Xuantai Pharmaceutical Technology Co., Ltd. and director of Shanghai Everdisplay Optronics Co., Ltd. He previously served as the deputy manager of the management advisory department, manager of the asset management department, executive manager of the business development department and manager of the audit department of Shanghai Alliance Investment Ltd. Mr. Ying received a bachelor's degree in industrial management engineering from Shanghai Jiao Tong University. He is an accountant and a certified public valuer in China.

Mr. Gu Jinshan, aged 58, is the Bank's non-executive director. He is also concurrently serving as the secretary of party committee and chairman of the board of directors of Shanghai International Port (Group) Co., Ltd., the chairman of board of directors of Shanghai Port International Cruise Terminal Co., Ltd., vice chairman of Shanghai Port & Shipping Equity Investment Co., Ltd. and the executive director of Shanghai Tongsheng Investment (Group) Co., Ltd. He previously served as the director and deputy secretary of party committee of Shanghai Municipal Engineering Design Institute, chief of construction planning department and science and education department, of Shanghai Construction Committee, deputy general manager of Shanghai City Construction Investment Development Co., Ltd., secretary of party committee and chief of Shanghai Municipal Water Affairs Bureau, deputy secretary of Shanghai Municipal Construction and Transportation Committee, director of Shanghai Municipal Housing and Urban-Rural Construction Management Committee and deputy secretary of Shanghai Municipal Government. Mr. Gu received a bachelor's degree in road engineering and a master's degree in management of business administration from Tongji University. He is a senior engineer of professor-level in China.

Mr. Yuk Hung Antony Hung, aged 61, is the Bank's non-executive director. Mr. Kong is concurrently serving as the vice president and chief executive officer in Asia-Pacific Region of Santander, president of Santander Hong Kong Branch, the director of Academy Marina (ABC) Limited, Academy Star Limited, Academy Sea Limited, Great Bloom (China) Limited and Jiangxi Honglong Food Co., Ltd. He previously served as the vice president of sales department of fixed-income product department of Salomon Brothers Hong Kong Limited, managing director of Merrill Lynch (Asia Pacific) Limited, president of capital market department and currency and futures business in Asia-Pacific region, president of global wealth and investment management business in Pacific region of Bank of America Merrill Lynch, chairman of Asia-Pacific region investment committee of Capula Investment Management Asia Limited, managing director and president of global corporate banking and capital market in Asia-Pacific region of Santander. Mr. Kong received his bachelor's degree in financial technology information system and his master's degree in business administration from The Chinese University of Hong Kong. Mr. Kong is a member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants (ACCA).

Mr. Zhuang Zhe, aged 48, is the Bank's non-executive director. Mr. Zhuang is also concurrently serving as the assistant to the president of China Jianyin Investment Limited. He previously worked as the deputy director and director of the general office of CCB Henan Branch, president and secretary of the party committee of CCB Zhengzhou Railway Branch, deputy general manager of the custody division of finance, credit and trust, deputy general manager of the corporate governance department and general manager of the long-term equity investment department of China Jianyin Investment Limited, chairman of the board of directors and secretary of the party committee of Zhongtou Kexin Technology Co., Ltd., and chairman of the board of directors and secretary of the party committee of JIC Holding Co., Ltd. Mr. Zhuang obtained a bachelor's degree in investment and economy management from Henan School of Finance (now Henan University of Finance and Economics) and a master's degree in economics from Renmin University. Mr. Zhuang is a senior economist.

Mr. Li Chaokun, aged 54, is the Bank's non-executive director. He is also concurrently serving as the director of financial department of China State Shipbuilding Corporation Limited, chairman of the board of directors of Zhong Chuan Finance Co., Ltd., chairman of the board of directors of CSSC Investment and Development Co., Ltd., chairman of the board of directors of CSSC Investment and Development (Shanghai) Co., Ltd., chairman of the board of directors of China Cruise Industry Investment Company Limited and executive director of CSSC International Holding Co., Ltd.. He previously worked as the general manager of CSSC Nanjing Luzhou Environmental Protection Equipment Engineering Co., Ltd., deputy chief accountant of Nanjing Luzhou Machinery Factory, deputy general manager and supervisor of financial affairs of CSSC Nanjing Luzhou Machine Co., Ltd., chief accountant of Zhenjiang CME Co., Ltd., deputy general manager and general manager of Zhong Chuan Finance Co., Ltd., and supervisor of Zheng Mao Group Company Limited and director of Jiulong Steel Logistic Co., Ltd. Mr. Li graduated from Nanjing University with an MBA degree and is a senior economist.

Ms. Du Juan, aged 50, is the Bank's non-executive director. She is also currently serving as an executive director, chief operating officer and chief financial officer of TCL Corporation, the director of TCL Huaxing Photoelectric Technology Co., Ltd., the director of TCL Corporation Finance Co., Ltd. and the chairman of the board of directors of TCL Financial Leasing (Zhuhai) Co., Ltd. and TCL Financial Holding Group (Guangzhou) Co., Ltd. She previously served as the manger of financial department of the Huizhou sales department of Cathay Securities, deputy director of Nanhu office of CCB Huizhou Branch, general manager of settlement department of the clearing centre of TCL Corporation, deputy general manager and general manager of TCL Corporation Finance Co., Ltd., assistant to president, vice president of TCL Corporation and president of TCL Finance Holding Group. Ms. Du obtained a bachelor's degree in investment economics from Zhongnan University of Economics and Law and a master's degree in business administration from Cheung Kong Graduate School of Business.

Mr. Kwok Sek-chi, aged 67, is the Bank's non-executive director. He is also concurrently serving as the deputy chairman of the board of director, managing director and chief executive officer of Shanghai Commercial Bank Limited, director of Shanghai Commercial Bank Trustee Limited, The Hong Kong Institute of Bankers, Hai Kwang Property Management Company Limited, Bank Consortium Trust Company Limited, Shacom Futures Limited, Infinite Financial Solutions Limited, Shanghai Commercial Bank (Agent) Co., Ltd., Shacom Property (CA) Inc., Shacom Property (NY) Inc., AR Consultant Services (HK) Limited, Shacom Securities Limited, BC Reinsurance Limited, Hong Kong Life Insurance Limited, HKS Education Fund, Bank Consortium Holding Limited, JETCO Systems Limited, Luen Fung Hang Life Limited and BCT Financial Limited, member of the Council of the Duty Lawyer Service, member of the advisory board of the Global Bankers Programme, chairman of the banking and finance training board of the Vocational Training Council, director of The Chinese Bankers' Association Limited, and director of The Hong Kong Chi Tung Association Limited. Mr. Kwok previously served as the manager of the New York Branch, San Francisco Branch, Los Angeles Branch and London Branch of Shanghai Commercial Bank Limited, the deputy general manager, head of the Branch administration office and general manager of Shanghai Commercial Bank Limited and a supervisor of the Bank. Mr. Kwok obtained a bachelor's degree in financial research from New Method College and has been a fellow of the Hong Kong Institute of Bankers and a fellow of the Chartered Institute of Bankers since July 1999 and January 2000, respectively.

Ms. Gan Xiangnan, aged 50, is the Bank's non-executive director. She is also concurrently serving as the director and the deputy general manager of Shanghai Huangpu Investment Holding (Group) Company Limited, the director and deputy general manager of Shanghai Huangpu Guiding Fund and Equity Investment Co., Ltd., the director of Shanghai New Huangpu Industrial Group Co. Ltd., the chairman of the board of director of Shanghai Hui Tong Yuan Investment Management Co., Ltd. and Shanghai New Huangpu Asset Management Co., Ltd. She previously served as the manager of the asset management department of Shanghai New Huangpu (Group) Company Limited, the deputy general manager of Shanghai Bund Source Development Company Limited, the general manager of Shanghai New Huangpu Asset Management Company Limited and the manager of the investment development department of Shanghai Bund Investment Development (Group) Company Limited. Ms. Gan obtained a doctorate degree in industrial economics from Fudan University and is qualified as a senior economist.

Mr. Wan Jianhua, aged 64, is the Bank's independent non-executive director. He is also concurrently serving as the president of the Association of Shanghai Internet Financial Industry, independent non-executive director of China Resource Bank of Zhuhai Company Limited, chairman of board of directors of All In Pay Network Services Co., Ltd., and independent non-executive director of Great Wall Fund Management Co., Ltd, independent non-executive director of Shanghai Xinnanyang Only Education & Technology Co., Ltd., Gome Finance Technology Co., Ltd. and Shengang Securities Co., Ltd. Mr. Wan previously served as an officer and deputy section chief of the planning section, section chief of the macro-analysis section under the treasury management department of the PBOC, vice president at China Merchants Bank and concurrently the president of its Shanghai Branch, chairman of the board of directors of Great Wall Securities Co., Ltd., chairman of the board of directors of Guotong Securities

Co., Ltd. (now China Merchants Securities Co., Ltd.), secretary of the party committee and president of China UnionPay Co., Ltd., deputy secretary of the party committee, vice chairman of the board of directors and general manager of Shanghai International Group, secretary of the party committee and chairman of the board of directors of Guotai Junan Securities Co., Ltd., president of the Shanghai Securities Association and chairman of the board of directors of E-Capital Transfer Co., Ltd. Mr. Wan holds a master's degree of economics in monetary banking from the Financial Research Institute of the PBOC.

Mr. Guan Tao, aged 49, is the Bank's independent non-executive director. He is also concurrently serving as the global chief economist of BOC International (China) Co., Ltd., director of the China International Finance Society, executive director of the China Society of World Economics and chair professor of Dong Fureng Economic and Social Development Institute of Wuhan University. Mr. Guan previously worked as a principal staff member at the Policy and Regulation Department of SAFE, a principal staff member, deputy section chief, section chief and then deputy director at the General Affairs Department of SAFE, and deputy director at the Balance of Payments Department of SAFE, member of the third Chinese Economist 50 Forum, senior researcher of China Finance 40 Forum and independent non-executive director of Vstone Investment Management Co., Ltd., Kingray New Materials Science & Tech Co., Ltd. and BOC International (China) Co., Ltd. Mr. Guan holds a doctorate degree in economics from Beijing Normal University.

Mr. Sun Zheng, aged 62, is the Bank's independent non-executive director. He is also concurrently serving as the chairman of the academic committee at Shanghai University of Finance and Economics, vice president of the Accounting Society of China, committeeman of the Accounting Standards Strategy Committee under the Ministry of Finance, member of the academic review committee (Business Administration) of the Academic Degrees Committee of the State Council, independent non-executive director of Shanghai Rural Commercial Bank Co., Ltd., Shanghai Johnson & Johnson Holdings Co., Ltd., Industrial Securities Co., Ltd. and COFCO Capital Holdings Co., Ltd. He previously served as the vice director, director of the Accounting Department, the assistant to principal and the deputy principal of Shanghai University of Finance and Economics. He also served as an independent director of Shenergy Company Limited and Shanghai Pudong Development Bank Co., Ltd, a member of China Accounting Standards Committee under the Ministry of Finance and postgraduate education guidance committee for national business administration post-graduate degree. Mr. Sun holds a doctorate degree in accounting from Shanghai University of Finance and Economics. He is a professor, a certified public accountant in China and Australia, and enjoys special government allowance from the State Council.

Mr. Xu Jianxin, aged 64, is the Bank's independent non-executive director. He is also concurrently serving as the senior vice president of Shanghai Purest Investment Management Co., Ltd., independent non-executive director of Shanghai Shunho New Materials Science & Technology Co., Ltd. and Shanghai Electric Group Company Limited. Mr. Xu previously served as a lecturer and associate professor at Shanghai University of Finance and Economics, certified public accountant of Da Hua Certified Public Accountants, deputy general manager of Shanghai Brilliance Investors Service Company Limited, deputy chief accountant, director, chief financial controller and chief economist of Orient International (Holding) Co., Ltd., vice chairman of the board of directors of Orient International Enterprise Ltd., director of Shanghai Pudong Development Bank Co., Ltd., and independent non-executive director of Shanghai Sinyang Semiconductor Materials Co., Ltd., Baida Group Co., Ltd. and Shanghai Jin Jiang International Hotels (Group) Company Limited. Mr. Xu graduated from Shanghai University of Finance and Economics with a doctorate degree in accounting. He enjoys senior accountant professional titles and is a certified public accountant in China.

Mr. Gong Fangxiong, aged 56, is the Bank's independent non-executive director. He is also concurrently working as the chairman of the board of directors of First Seafront Financial Limited, director of First Seafront Fund Management Co., Ltd. and independent non-executive director of 9F Inc. Mr. Gong previously served as an economist at the Federal Reserve Bank of New York, the chief strategist and co-head of global currency and rates research at Bank of America, head of China research and strategy and chief economist at JP Morgan Chase & Co. He also co-headed JP Morgan Chase & Co.'s EM Asia market research and strategy. He then served as the managing director of JPMorgan Securities (Asia Pacific) Ltd., the committee general manager at J.P. Morgan Chase, Asia Pacific Region and vice president of J.P. Morgan Chase China Investment Banking and the president of China Investment Bank. Mr. Gong holds a doctorate degree in financial economics from Wharton at the University of Pennsylvania.

Mr. Shen Guoquan, aged 55, is the Bank's independent non-executive director. He currently is a senior partner at AllBright Law Offices in Shanghai. He is also serving as a member of the 5th Listing Committee of the Shanghai Stock Exchange, director of Shanghai Golinks Information Technology Co., Ltd. and arbitrator of the Shanghai Arbitration Commission. Mr. Shen previously worked as an assistant prosecutor of the Policy Research Office of the Shanghai People's Procuratorate, partner at Shanghai Wanguo Law Offices, full-time member of the 7th and the 8th Public Offering Review Committee of the China Securities Regulatory Commission, independent non-executive director of Harbin Pharmaceutical Group Co., Ltd., independent non-executive director of Zhejiang Crystal-Optech Co., Ltd., independent non-executive director of Shanghai East Money Information Co., Ltd., independent non-executive director of Shanghai Xinhua Media Co., Ltd., independent non-executive director of Beijing Hualu Baina Film & TV Co., Ltd., independent non-executive director of Suzhou TA&A Ultra Clean Technology Co., Ltd, member of the financial securities commission of All China Lawyers Association, independent non-executive director of Jiangxi Lianchuang Optoelectronic Technology Co., Ltd. and Zibo Qixiang Tengda Chemical Co., Ltd. Mr. Shen obtained his master's degree in economic law from East China University of Political Science and Law.

Supervisors

The board of supervisors is responsible for monitoring the Bank's financial matters and overseeing the actions of the board of directors and the management of the Bank. The board of supervisors currently consists of four supervisors, including two external supervisors and two employee representative supervisors.

The following table sets forth information regarding the Bank's board of supervisors as of the date of this Offering Circular:

Name	Age	Position/Title
Yuan Zhigang	62	External supervisor
Ge Ming	69	External supervisor
Lin Liqun.	56	Employee representative supervisor
Zhang Hongbiao	52	Employee representative supervisor

Mr. Yuan Zhigang, aged 62, is the Bank's external supervisor. He currently serves as a professor at School of Economics and the director of Employment and Social Security Research Centre of Fudan University, vice president of Shanghai Economist Association, a member of the Shanghai Decision-making Advisory Panel, independent non-executive director of JIC Trust Co., Ltd., and independent non-executive director of Shanghai Pudong Development Bank Co., Ltd. He previously served as an independent non-executive director of Ningbo Fuda Co., Ltd. and an independent non-executive director of Bank of Communications Schroder Fund Management Co., Ltd. Mr. Yuan was accredited as a professor by the human resources division of Fudan University in May 1997 and a doctoral supervisor in the same year. He was engaged by Fudan University as a distinguished professor of the Chang Jiang Scholars Programme from March 2008 to March 2011. Mr. Yuan received a bachelor's degree in economics from Hangzhou University (now Zhejiang University) in April 1982, a master's degree in economics from Fudan University in July 1987 and a doctorate degree in economics from Ecole des hautes etudes en sciences sociales (School for Advanced Studies in the Social Sciences), France in February 1993.

Mr. Ge Ming, aged 69, is the Bank's external supervisor. He is currently serving as the general manager of Beijing Huaming Fulong Finance & Accounting Co., Ltd., independent non-executive director of Focus Media Information Technology Co., Ltd., independent non-executive director of Ping An Insurance (Group) Company of China Ltd., external supervisor of Bank of Suzhou Bank Co., Ltd., executive director of the Fifth Council of The Chinese Institute of Certified Public Accountants, member of the Certified Public Accountants Examination Panel of the Ministry of Finance, deputy director of the industry development committee of the Beijing Institute of Certified Public Accountants and a member of the 3rd Specialist Advisory Panel on Merger and Reorganisation Matters of Listed Companies for the China Securities Regulatory Commission. He previously served as a managing partner, chief accountant and chairman of the board of directors at Ernst & Young Hua Ming LLP, independent non-executive director of Shunfeng International Clean Energy Co., Ltd. and independent non-executive director of Shanghai Zhenhua Heavy Industry Co., Ltd. Mr. Ge obtained a master's degree in western accounting from Chinese Academy of Fiscal Sciences. He is a certified public accountant and enjoys senior accountant professional titles.

Mr. Lin Liqun, aged 56, is the Bank's employee representative supervisor. He is also currently serving as the secretary of party committee of Shenzhen Branch of the Bank, director of BOS Hong Kong and BOSC International. He previously served as the deputy president of Industrial and Commercial Bank of China Shenzhen Branch and the president of Shenzhen Branch of the Bank. Mr. Lin obtained his master's degree in business administration from China Europe International Business School and is a senior economist.

Mr. Zhang Hongbiao, aged 52, is the Bank's employee supervisor. He is currently serving as the president and party committee secretary of Shinan Branch of the Bank, chairman of the board of directors of Minhang BoS Rural Bank. He previously served as the president of Songjiang Branch of the Bank, office manager and party committee office manager of the Bank. Mr. Zhang obtained his master's degree in business administration from Shanghai National Accounting Institute – Arizona State University and is an economist.

Senior Management

The Bank's president is responsible for overseeing the day-to-day management of the Bank's business and operations. The president and vice presidents are appointed by the board of directors, are accountable to the board of directors, and perform duties pursuant to the Bank's articles of association and the board of directors' authorisation.

The following table sets forth information regarding the Bank's senior management as of the date of this Offering Circular:

Name	Age	Position/Title
Shi Hongmin	51	Executive vice president and chief financial officer
Huang Tao	49	Executive vice president
Hu Debin	51	Executive vice president
Wang Ming	45	Executive vice president
Cui Qingjun	48	Executive vice president
Li Xiaohong	50	Secretary to the board

Mr. Shi Hongmin, aged 51, has been the Bank's vice president since July 2016 and chief financial officer since August 2012. For Mr. Shi's biography, see "*Directors*" above.

Mr. Huang Tao, aged 49, has been the Bank's executive vice president since May 2016. He is concurrently serving as the chairman of the board of directors of BOS Hong Kong, director of Shenlian International Investment Co., Ltd and the chairman of the board of BOSC International. Mr. Huang previously served a number of roles at CCB, including the senior deputy manager of the credit management division, senior manager of the credit asset quality supervision division, senior manager of the corporate credit product risk division and assistant to general manager of the risk management department. He also served as the senior vice president, board secretary, alternate administrative president, executive director and executive vice president of China Construction Bank (Asia) Corporation, director of China Construction Bank (Macau) Corporation, director of QBE Hong Kong & Shanghai Insurance Limited and deputy general manager of the risk management department of CCB. Mr. Huang was accredited as a lawyer by the Ministry of Justice of the PRC in September 1995, an economist by China Construction Bank Corporation in September 1999. Mr. Huang received a bachelor of laws degree from China University of Political Science and Law in June 1993, a master of laws degree from Renmin University of China in July 1996 and a master's degree in business administration from University of Oxford in October 2005.

Mr. Hu Debin, aged 51, has been the Bank's executive vice president since May 2016. He is also currently serving as the director of City Commercial Banks Clearing Co., Ltd. He previously served as a teaching assistant at the Analysis and Testing Centre of Jilin University. His served a number of roles at Industrial and Commercial Bank of China Limited, including a staff member of the technology division of the Changchun Branch, project manager, division manager, assistant to general engineer, assistant to general manager, deputy general manager and a member of the party committee of the software development centre, and deputy general manager and deputy secretary of the party committee of the Data Centre (Shanghai). Mr. Hu was accredited as a senior engineer by Industrial and Commercial Bank of China Limited in October 2005. Mr. Hu received a bachelor's degree in computer and application in July 1991, a master's degree in economics in August 1998 and doctorate degree in computer software and theory in December 2008 from Jilin University.

Mr. Wang Ming, aged 45, is the Bank's executive vice president. He is currently serving as the party committee secretary of Puxi Branch of the Bank and chairman of the board of directors of BOSC Asset Management. He previously served as the deputy general manager of corporate finance department of the Bank, party committee member, secretary of disciplinary committee and president of Beijing Branch of the Bank, deputy general manager of inter-bank finance department of the Bank and president of Puxi Branch of the Bank. Mr. Wang obtained a bachelor's degree in global economy from Fudan University.

Mr. Cui Qingjun, aged 48, is the Bank's executive vice president. He previously served as the secretary of youth league, deputy director of propaganda and community department of party committee and general manager of human resource department of CCB Suzhou Branch, party committee secretary and president of Wuzhong sub-branch and Xiangcheng sub-branch of CCB Suzhou Branch, director of credit card centre of CCB Nanning Branch, party committee secretary and president of Suzhou Branch of the Bank. Mr. Cui obtained his doctorate degree in management from Suzhou University and is a senior economist.

Ms. Li Xiaohong, aged 50, has been the secretary to the Bank's board of directors since December 2010. She is currently serving as the director of BOS Hong Kong and BOSC International. She previously served as a teacher in the Foreign Language Department of Dalian Military Academy, a teacher in the Foreign Language Department of the People's Liberation Army General Hospital. Her previous work experience includes a number of roles at China Securities Regulatory Commission, including an officer at the Training Division I and the principal staff member of the Training Division II of the Training Centre, the principal staff member of the Foreign Affairs Division of the International Cooperation Department, the principal staff member, deputy division-chief-level secretary and division-chief-level secretary of the Secretarial Division of the General Office, consultant of the No. 5 Vetting Division of the Issuance Supervision Department and director of the Working Division of the Issuance Approval Commission, and assistant to director (secondment) at Shanghai Financial Services Office. Ms. Li received a bachelor's degree in English from Liaoning Normal University in July 1991, a master's degree in English language and literature from Jilin University in June 1995, a master's degree in studies in law from the University of Pittsburgh in May 2004 and doctorate degree in laws from Jilin University in December 2009.

DESCRIPTION OF THE LC BANK

The information included below is for information purposes only and is based on, or derived or extracted from, among other sources, publicly available information. The Issuer and the Bank have taken reasonable care in the compilation and reproduction of the information. None of the Issuer, the Bank, the Joint Bookrunners and Joint Lead Managers, the Trustee, the Agents or any of their affiliates, employees or professional advisers has independently verified such information. No representation or warranty, express or implied, is made or given by the Issuer, the Bank, the Joint Bookrunners and Joint Lead Managers, the Trustee, the Agents or any of their affiliates, employees or professional advisers as to the accuracy, completeness or sufficiency of such information. Accordingly, such information should not be unduly relied upon.

The Bonds have the benefit of the Standby Letter of Credit which will be issued by China Construction Bank Corporation, Hong Kong Branch as the LC Bank. Under PRC laws, the LC Bank is not a separate and independent legal person but has capacity to carry on its activities within its scope of authorisation given by CCB, and if the assets of the LC Bank are not sufficient to meet the obligations of the LC Bank under the Standby Letter of Credit, CCB would have an obligation to satisfy the balance of the obligations under the Standby Letter of Credit.

Overview

CCB, established in October 1954 and headquartered in Beijing, is a leading large-scale joint stock commercial bank in China. CCB became listed on Hong Kong Stock Exchange in October 2005 (stock code: 939) and listed on the Shanghai Stock Exchange in September 2007 (stock code: 601939). In 2019, CCB and its consolidated subsidiaries (the "**CCB Group**") received numerous awards from various domestic and international institutions including "Achievement in Comprehensive Risk Management Award in China" and "Best Mega Trade Finance Bank in China" by *The Asian Banker* in Singapore, "Best Bank in China 2019" by *The Asset* in Hong Kong, "Best private Bank in China" by *Asiamoney* in Hong Kong, "Most Competitive Online Finance Bank 2019" by *Chinese Business Journal*, "Best Bank for FinTech Innovation" by *Financial News*, "Most Influential Bank", "Innovative Mobile Bank" by *Sina Finance* and "Best Inclusive Finance Performance Award" and "Best Social Responsibility Practice Award" by China Banking Association. CCB Group ranked second in "Top 1000 World Banks" by *The Bankers* in 2019, ranked 31st in the "Global 500" by *Fortune* in 2019 and ranked third in the "Top 50 Most Valuable Management Award in China" by *US Interbrand*.

The CCB Group provides convenient and high-quality banking services to its customers through an extensive network comprised of nationwide branches, self-service facilities, specialised service entities and an electronic banking service platform. It operates primarily in mainland China with branches in all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in mainland China. In the meanwhile, the CCB Group adheres to a positive and steady international operation and overseas development strategy, leading to a steady expansion of its overseas network. As of 31 December 2019, the CCB Group had 30 tier-one overseas branches, covering 30 countries and regions including Hong Kong, Singapore, Germany, South Africa, Japan, South Korea, the United States, the United Kingdom, Vietnam, Australia, Dubai, Taiwan, Luxembourg, Macau, New Zealand, Canada, France, Netherlands, Spain, Italy, Switzerland, Chile, Poland, Kazakhstan and Malaysia, and wholly-owned operating subsidiaries including China Construction Bank (Asia) Corporation Limited, China Construction Bank (London) Limited, China Construction Bank (Russia) Limited Liability Company, China Construction Bank (Europe) S.A., China Construction Bank (New Zealand) Limited, China Construction Bank (Brasil) Banco Múltiplo S/A, China Construction Bank (Malaysia) Berhad, and PT Bank China Construction Bank Indonesia Tbk.

As of 31 December 2019, the CCB Group's total assets, total liabilities and total equity were RMB25.4 trillion (including total loans and advances to customers of RMB15.0 trillion), RMB23.2 trillion (including total deposits from customers of RMB18.4 trillion) and RMB2.2 trillion, respectively. For the year ended 31 December 2019, the CCB Group's net interest income was RMB510.7 billion and the profit before tax was RMB326.6 billion.

As of 31 December 2019, the NPL ratio of the CCB Group was 1.42 per cent., the NPL ratio for domestic corporate loans and advances and for personal loans and advances was 2.47 per cent. and 0.41 per cent., respectively. As of 31 December 2019, the NPL ratio for overseas operations and subsidiaries was 1.24 per cent. As of 31 December 2019, the CCB Group's total capital ratio was 17.52 per cent. and common equity tier one ratio was 13.88 per cent.

Principal Business Activities

The CCB Group's major business segments are corporate banking, personal banking, treasury business, and others including overseas business and subsidiaries.

The following table sets forth, for the years indicated, the profit before tax of each major business segment:

	Year ended 31 December					
	2017		2018		2019	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(RMB in millions, except percentages)					
Corporate banking	82,724	27.6	74,168	24.1	72,694	22.3
Personal banking	137,736	46.0	139,734	45.3	148,642	45.5
Treasury business	54,617	18.2	84,735	27.5	91,693	28.1
Others	24,710	8.2	9,523	3.1	13,568	4.2
Profit before tax	**299,787**	**100.0**	**308,160**	**100.0**	**326,597**	**100.0**

Corporate Banking

Overview

CCB offers a broad range of corporate banking products and services for corporations, government agencies and financial institutions. As of 31 December 2019, the CCB Group had RMB7.0 trillion of domestic corporate loans and advances, representing 46.3 per cent. of its total loans and advances to customers, RMB492.7 billion of domestic discounted bills outstanding, representing 3.3 per cent. of its total loans and advances to customers, and RMB8.9 trillion of domestic corporate deposits, representing 48.7 per cent. of its total deposits from customers.

Corporate deposits

CCB continued to consolidate its customer and account basis, deepened its cooperation with government institutions and enterprises, and maintained a steady growth in corporate deposits. As of 31 December 2019, domestic corporate deposits of CCB amounted to RMB8.9 trillion.

Corporate loans

CCB continued to optimise its credit structure to support the development of the real economy and maintained steady growth of corporate loans and stable asset quality. As of 31 December 2019, domestic corporate loans and advances of CCB amounted to RMB7.0 trillion. The NPL ratio of the corporate loans and advances of CCB was 2.47 per cent.

Institutional business

Focusing on smart government affairs services, CCB established innovative institutional business platforms, including benevolent religious affairs, senior citizen caring, party and masses work services, smart political and legal services, CCB smart campus application, CCB wise healthcare application, and smart payment for government charges, which had accumulatively handled over 30 million transactions in 2019. CCB sponsored the China "Internet Plus" college student innovation and entrepreneurship competition for five consecutive years, benefiting nearly 10 million college students. Actively exploring new model to serve the veterans, CCB established CCB Yunongtong veteran entrepreneurship service station, and sponsored CCB veteran entrepreneurship competition. To promote the rural revitalisation strategy, CCB built a platform for rural funds, assets and resources as an effective community-level application of smart government affairs services strategy.

International business

CCB persisted in innovation-led development, and continuously improved its international competitiveness. To support the steady growth of foreign trade and as one of the first banks directly linked to China International Trade Single Window, CCB launched over 10 financial service functions, maintaining a leading advantage among peers. CCB created a new series of "Cross-border Quick Loan", providing online financing services for small and micro businesses, and granted loan nearly amounted to RMB4 billion on a cumulative basis in 2019. The block chain trade finance platform launched functions such as domestic letter of credit, forfaiting, international factoring and refactoring. Besides, CCB supported the implementation of the "Belt and Road" Initiative, deepened the cross-border financial cooperation in Guangdong-Hong Kong-Macao Greater Bay Area, and took the lead in the free trade zone business.

CCB's RMB clearing banks in the UK, Switzerland and Chile operated steadily. CCB London Branch continued to be the largest RMB clearing bank outside Asia, with a cumulative clearing amount of over RMB42 trillion. In 2019, CCB's international settlement volume amounted to US$1.1 trillion, and its volume of cross-border RMB settlement was RMB1.7 trillion.

Custody service

CCB actively leveraged its strengths in custody service to support national strategy, promoted business innovation, strengthened risk control, and achieved high-quality development of asset custody business. CCB provided custody service to the Belt and Road initiative construction projects of the state-owned asset management platform, actively engaged in the exchange traded funds ("**ETF**") project for reform of Sichuan state-owned enterprises, and facilitated insurance funds investment in the construction of important national infrastructure such as highways and bridges. The number of funds in the Science and Technology Innovation Board ("**STAR Market**") under custody of CCB and the winning rate of its bidding for enterprise annuity custody service for central government-owned enterprises were both higher than its peers. It was also one of the first banks to provide custody services to cross-border conversion brokers of the global depository receipt and to funds under China-Japan ETF Connectivity scheme. As of 31 December 2019, assets under custody of CCB amounted to RMB13.1 trillion, and fee income from its custody service was RMB4,692 million.

Settlement and cash management business

The settlement and cash management business continued to grow steadily. CCB completed its work related to the PBOC's lift of approval requirements on corporate bank accounts to optimise account opening service, and further improved its corporate account services. CCB established an integrated professional corporate settlement service platform named "Huishibao" to support merchants and create a new service model. It also introduced "Jianguanyi" to help supervise funds in manufacturing industry, infrastructure investment and other fields, and to support the medical care insurance reform and projects on improving people's living standards. CCB continued to improve its global cash management services to make funds in global accounts "visible and controllable" to its customers that invest abroad. As of 31 December 2019, CCB had 11,053,400 corporate RMB settlement accounts, and its active cash management customers increased to 2,966,600.

Personal Banking

Overview

As of 31 December 2019, the CCB Group's domestic personal deposits were RMB8.7 trillion. CCB provides a broad range of products and services including personal deposits, personal loans and other related financial services for its personal banking customers based on their needs. CCB also provides bank card services and private banking for its personal banking customers. CCB is committed to providing comprehensive banking services to its personal banking customers and is focused on creating and improving its personal banking product chain and value chain.

Personal finance

CCB strived to implement the concept of "New Finance", and proactively promoted the development of new retail banking. It achieved balanced growth in quantity and quality of personal customers, maintained leading position among peers in terms of core business indicators, and further improved digitalised operation capability.

CCB optimised innovative products and consolidated process management based on market trends and its fund status to achieve rapid growth in personal deposits. As of 31 December 2019, domestic personal deposits of CCB were RMB8.7 trillion. In accordance with national macro-control policies and long-acting mechanism for real estate market, CCB steadily carried forward the transition of pricing basis to LPR for new residential mortgages, and strictly implemented differentiated housing credit policies to support people's reasonable housing needs. CCB upgraded its consumption services and granted self-service personal loans through "CCB Quick loan" online channel to over 15 million customers, with an amount of RMB175.7 billion for the year ended 31 December 2019.

Entrusted housing finance business

CCB actively enhanced the service standard of its system for entrusted housing finance business, steadily pressed ahead with its indemnificatory housing loans business to support low- and middle-income residents' housing needs for residential purpose. As of 31 December 2019, CCB's housing fund deposits were RMB878,927 million, and the total balance of its personal provident housing fund loans was RMB2,399,273 million. CCB has cumulatively provided RMB115,971 million personal indemnificatory housing loans to nearly 600,000 low- and middle-income households for the year ended 31 December 2019.

Debit card business

CCB continuously intensified its efforts in mobile payment innovation. It continued to upgrade its "Long Pay" business, attracting 122 million users with 349 million transactions conducted in 2019, making CCB a leading presence among peers in terms of brand awareness and business scale. CCB actively pressed ahead with the PBOC's mobile payment model project to provide convenience service, and promoted the upgrading and expansion of its payment and settlement ecosystem. It also accelerated the development of open banking, and achieved batch customer acquisition and financial service output in external scenarios through cooperation with third-party institutions. As of 31 December 2019, the number of CCB's debit cards in use was 1,129 million, including 622 million financial integrated circuit (IC) cards. The CCB's transaction volume of debit cards in 2019 was RMB23.19 trillion.

Credit card business

The credit card business achieved rapid and sound development as CCB implemented differentiated operating models for each region. It actively promoted the innovation of its products for targeted customer bases such as young people, car owners and consumers shopping overseas. In 2019, CCB introduced a range of products such as QQ Music card, Feichi Changxing Long Card, and Joy Card and issued more than 2.2 million virtual credit cards, "Long Card Credit (Daiba)", which can be applied and issued online instantly. It strengthened credit card-based mobile payment and payment innovation, and accelerated scenario-based deployment with merchants by launching more than one hundred innovative industry applications at the intelligent Point of Sale (POS) platform. It comprehensively improved its risk control and compliance management capability, optimised its risk strategies and differentiated credit approval system, strictly implemented regulatory requirements and strengthened the control of the use of funds. As of 31 December 2019, the cumulative number of credit cards issued by CCB amounted to 133 million. CCB's transaction volume of credit cards was RMB3.15 trillion for the year ended 31 December 2019. CCB outperformed its peers in asset quality, with loans of RMB741,197 million and NPL ratio of 1.03 per cent as of 31 December 2019.

Private banking

Upholding the principle of "high-quality service and excellent experience" for private banking, CCB continued to build its banking expertise.

CCB actively cooperated with high-quality third parties to continuously improve its specialised operating capability in wealth structure, legal and tax services and asset allocation, regularly issued investment strategies and special research reports, held high-level salons such as family wealth forum, and consolidated its leading position in family trust advisory business among peers, with the assets under its management reaching RMB28,605 million as of 31 December 2019.

CCB carried forward its refined service model with professional teams to enhance customer trust by uncovering and fully satisfying customer needs. To build a private banking model that integrates online and offline operation, CCB enhanced its operating capability of private banking centres, improved functions of the mobile version of "CCB e-private banking" and optimised its deployment at channels, which effectively improved customer experience.

As of 31 December 2019, the financial assets of private banking customers of CCB amounted to RMB1.51 trillion and its number of private banking customers increased to 142,739.

Treasury Business

Overview

CCB's treasury operations primarily consist of its financial market business, asset management, investment banking business and financial institutional business.

Financial market business

CCB's financial market business actively responded to changes in the internal and external environments, and continued to make efforts in improving trading capabilities, strengthening customer base, expanding channel platforms, supporting small and medium-sized financial institutions and enhancing risk control management. With these efforts, CCB expanded business smoothly, maintained a leading position in terms of key operational indicators and steadily sharpened its competitive edge.

With respect to money market business, CCB used a combination of money market tools, maintained reasonable RMB and foreign currency funding positions, and strengthened active operations to ensure sound liquidity. With regard to RMB money market business, CCB closely followed monetary policies with in-depth understanding of market movement patterns, and strengthened forward-looking research to maintain stable positions and maximise returns on its funds. With regard to foreign currency money market portfolio, CCB paid close attention to the impact of changes in US Federal Reserve's policies, Sino-US trade frictions and other factors on USD liquidity, and made proper arrangement of the maturities of inflows and outflows, which ensured that its foreign currency liquidity stayed reasonably adequate throughout the year.

With respect to debt securities investments, CCB achieved a balance between liquidity, security and returns on debt securities investments. With regard to investment in RMB debt securities, CCB adhered to the strategy of value investing, and optimised its portfolio structure with a reasonable pace of investment. With regard to investments in foreign currencies debt securities, CCB paid close attention to interest rate movements in global market, actively adjusted its portfolio structure, and increased the volatility operations in order to raise the overall returns of investments.

With respect to customer-based trading business, CCB steadily promoted the high-quality development of its customer-based trading business. It consolidated its customer base with a record number of customers, and it built the CCB Finance Market E-Trading platform and a Financial Derivative Pricing System supported by FinTech, and expanded counterparties to meet the hedging demands of foreign institutional investors. It also conducted in-depth strategy research and built its market trading brand. Moreover, it strengthened compliance management to ensure the healthy development of its customer-based trading business. In 2019, CCB's customer-based trading business amounted to US$387.1 billion, and the volume of its foreign exchange market-making transactions reached US$3.20 trillion. CCB maintained the leading position in the comprehensive ranking of interbank foreign exchange market makers.

With respect to precious metals and commodities, CCB achieved sound development of its precious metals and commodities business in compliance with regulations. It continued to expand commodity hedging business with new products in PX, naphtha, apples, etc., in order to meet the diversified investment and trading needs of its customers. In 2019, the total trading volume of precious metals of CCB reached 74,274 tonnes, and the number of its personal customers for precious metals and commodities trading were 49.78 million.

Asset management

CCB strictly followed regulatory policies to accelerate the transformation of its asset management model, and constantly optimised its product and asset structure. As of 31 December 2019, CCB Group's wealth management products (the "**WMPs**") amounted to RMB2,145,723 million, with RMB2,061,897 million managed by CCB and RMB83,826 million managed by CCB Wealth Management Co., Ltd.

As of 31 December 2019, CCB's net asset value type products amounted to RMB478,533 million, with 285 net asset value type products issued in 2019. As of 31 December 2019, CCB's direct and indirect investments of wealth management business totalled RMB2,145,757 million, with RMB721,420 million non-standardised debt assets. In 2019, CCB independently issued various WMPs totalling RMB7,771,813 million to effectively meet the investment needs of customers.

Investment banking business

In order to deepen the supply-side structural reform in financial sector, CCB focused on key social and economic issues, proactively served the real economy, and provided enterprises with comprehensive financial solutions that include both funds and ideas. In 2019, CCB's income from investment banking reached RMB5,536 million as the bond underwriting business maintained its leading advantage and the financial advisory business showed a strong growth momentum. A total of 666 batches of debt financing instruments were underwritten by CCB for non-financial enterprises, with an amount of RMB478 billion for the year ended 31 December 2019. CCB underwrote debt financing instruments worth RMB22,580 million and undertook asset-backed securitisation projects for private enterprises of RMB7,470 million for the year ended 31 December 2019. In 2019, CCB also undertook debt financing instruments projects of RMB3.7 billion for "innovation and entrepreneurs" businesses, poverty alleviation debts of RMB6.2 billion, and inclusive finance credit assets backed securitisation projects of RMB2,148 million. CCB deepened the cooperation in green finance sector and underwrote green bond projects totalling RMB24 billion for the year ended 31 December 2019. In 2019 the cumulative amount of overseas debts underwritten by CCB reached US$69,129 million, and the total investments in debt-to-equity swaps and other integrated deleveraging businesses reached RMB217,922 million. Meanwhile, CCB actively served customers with potential to list on the STAR Market and provided tailor-made financial services solutions.

Financial institutional business

CCB vigorously promoted the application of FinTech strategy in financial institutional business, built an interbank cooperation platform, and launched 21 services such as intelligent risk control for retail banking and big data governance advisory service to help customers reduce costs, prevent and control risks, and improve efficiency. As of 31 December 2019, the amounts due to other domestic financial institutions (including insurance deposits) were RMB1,528,007 million. As of 31 December 2019, CCB's assets placed with other domestic financial institutions were RMB684,009 million.

Overseas commercial banking business

CCB Group steadily expanded its overseas business and institutional network to enhance globalised customer service capability and international competitiveness. As of 31 December 2019, CCB Group had established overseas institutions in 30 countries and regions. CCB had wholly-owned operating subsidiaries including CCB Asia, CCB London, CCB Russia, CCB Europe, CCB New Zealand, CCB Brasil and CCB Malaysia, and held 60 per cent. of equity in CCB Indonesia. Net profit of overseas commercial banking institutions of CCB in 2019 was RMB8,946 million.

Integrated operation subsidiaries

CCB has multiple domestic and overseas subsidiaries, including CCB Principal Asset Management Co., Ltd., CCB Financial Leasing Co., Ltd., CCB Trust Co., Ltd., CCB Life Insurance Co., Ltd., Sino-German Bausparkasse Co., Ltd., CCB Futures Co., Ltd., CCB Pension Management Co., Ltd., CCB Property & Casualty Insurance Co., Ltd., CCB Financial Asset Investment Co., Ltd., CCB Wealth Management Co., Ltd. and CCB International (Holdings) Limited. In 2019, the overall development of integrated operation subsidiaries was robust with steady business growth. As of 31 December 2019, total assets of CCB's integrated operation subsidiaries were RMB603,687 million.

Board of Directors

The board of directors of CCB as of 31 December 2019 consisted of:

Name	Position
Tian Guoli	Chairman, executive director
Liu Guiping	Vice chairman, executive director, president
Zhang Gengsheng	Executive director, executive vice president
Feng Bing	Non-executive director
Zhu Hailin	Non-executive director
Zhang Qi	Non-executive director
Tian Bo	Non-executive director
Xia Yang	Non-executive director
Anita Fung Yuen Mei	Independent non-executive director
Malcolm Christopher McCarthy	Independent non-executive director
Carl Walter	Independent non-executive director
Kenneth Patrick Chung	Independent non-executive director
Graeme Wheeler	Independent non-executive director
Michel Madelain	Independent non-executive director

Board of Directors Committees

The board of directors delegates certain responsibilities to various committees. The board of directors has established a strategy development committee, an audit committee, a risk management committee, a nomination and remuneration committee, and a related party transaction, social responsibility and consumer protection committee. These committees are constituted by certain directors and report to the board of directors.

General Information

CCB's registered office is located at No. 25, Finance Street, Xicheng District, Beijing, PRC. The CCB's website address is http://www.ccb.com. Information contained on CCB's website is subject to change from time to time and does not form part of this Offering Circular. No representation is made by the Issuer, the Bank, the Joint Bookrunners and Joint Lead Managers, the Trustee, the Agents, or any of their affiliates, employees or professional advisers, and none of the Issuer, the Bank, the Joint Bookrunners and Joint Lead Managers, the Trustee, the Agents, or any of their affiliates, employees or professional advisers, take any responsibility, for any information contained on CCB's website.

Copies of the latest annual and interim reports of CCB, as well as its public filings, can be downloaded free of charge from the website of The Stock Exchange of Hong Kong Limited ("**HKSE**") at www.hkex.com.hk. Information contained on HKSE's website is subject to change from time to time and does not form part of this Offering Circular. The audited consolidated financial statements and the unaudited but reviewed interim consolidated financial statements of CCB are not included in nor incorporated by reference in this Offering Circular and do not form part of this Offering Circular. No representation is made by the Issuer, the Bank, the Joint Bookrunners and Joint Lead Managers, the Trustee, the Agents, or any of their affiliates, employees or professional advisers, and none of the Issuer, the Bank, the Joint Bookrunners and Joint Lead Managers, the Trustee, the Agents, or any of their affiliates, employees or professional advisers, take any responsibility, for any information filed by CCB on the HKSE.

BANKING REGULATIONS AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with the CBIRC and PBOC acting as the principal regulatory authorities. the CBIRC is primarily responsible for supervising and regulating banking institutions, and the PBOC, as the central bank of the PRC, is primarily responsible for formulating and implementing monetary policies. The applicable laws and regulations governing activities in the PRC's banking industry consist primarily of the Law of PRC on the PBOC (the "**PRC PBOC Law**"), the PRC Commercial Banking Law (中華人民共和國商業銀行法), the Law of PRC on Regulation of and Supervision over the Banking Industry (中華人民共和國銀行業監督管理法), and the rules and regulations promulgated thereunder.

History and Development of the Regulatory Framework

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

The current regulatory framework of the PRC banking industry began to emerge in 1995 with the enactment of the PRC Commercial Banking Law and the PRC PBOC Law. The PRC Commercial Banking Law was promulgated in May 1995 and laid down the fundamental principles of operations for PRC commercial banks. The PRC PBOC Law, which was enacted in March 1995, provided for the scope of responsibilities and the organisational structure of the PBOC.

The CBRC has undertaken the duties and relevant responsibilities of the PBOC since 28 April 2003, including approving, supervising and managing banks, financial assets management companies, trust investment companies and other depositing financial institutions so as to facilitate the legal and stable operation of the banking industry while maintaining public confidence towards the banking industry, ensuring fair competition and enhancing competitiveness of the banking industry.

In December 2003, the PRC Commercial Banking Law and the PRC PBOC Law were amended. On 1 February 2004, the PRC Banking Supervision and Regulatory Law came into effect and were amended in October 2006. The PRC Banking Supervision and Regulatory Law sets out the regulatory functions and responsibilities of the CBRC.

On 29 August 2015, the Standing Committee of the People's Congress of China published its decision to amend the PRC Commercial Banking Law. The revised PRC Commercial Banking Law became effective on 1 October 2015.

Principal Regulators

Prior to April 2003, PBOC acted as both the PRC's central bank and the principal supervisor and regulator of the banking industry. In April 2003, CBRC was established to serve as the primary banking industry regulator and it assumed the majority of bank regulatory functions from PBOC. The PBOC retained its role as the central bank but now has a smaller role in the regulation of banking institutions.

CBIRC

Functions and Powers

Established by merging the former CBRC and the 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 China, responsible for supervision and regulation of banking financial institutions operating in China, including commercial banks, urban credit cooperatives, rural credit cooperatives, other deposit-taking financial institutions, policy banks and certain non-banking financial institutions. The CBIRC is also responsible for supervising and regulating overseas operations of the above-mentioned banking and non-banking financial institutions.

According to the PRC Banking Supervision and Regulatory Law and the State Council Institutional Reform Proposal (《國務院機構改革方案》) which was approved by the First Session of the Thirteenth National People's Congress on 17 March 2018, the major regulatory functions and supervising measures of the CBIRC over the banking industry include: (1) examining and approving the establishment of, change in, termination of and business scope of financial institutions in the banking industry, as well as granting banking licenses to commercial banks and their branches; (2) regulating the business activities of banking institutions, including their products and services; (3) approving and overseeing qualification requirements for directors and senior management of banking institutions; (4) conducting on-site inspection and off-site surveillance of the business activities and risk levels of banking institutions; (5) formulating emergency response systems and plans by cooperating with related departments; (6) taking actions to rectify and punish activities which violate regulations of the banking industry; (7) preparing and publishing statistics and financial statements of national banking institutions; and (8) taking over or procuring the restructuring of a banking institution which may materially impact the lawful rights and interests of depositors and other customers when there is, or is likely to be, a credit crisis.

Examination and Supervision

The CBIRC, through its head office in Beijing and local agencies nationwide, regulates the operations of banks and their branches through on-site inspection and off-site supervision.

The CBIRC is authorized to take corrective and punitive measures against a banking financial institution failing to comply with related regulations on the banking industry, including imposing a fine, ordering to suspend part of its businesses or to halt approval of its engagement in new businesses, restricting the distribution of dividends and other revenue, restricting the transfer of asset, ordering the controlling shareholders to transfer equity interest or limiting the rights of relevant shareholders, ordering the adjustment of directors or senior management personnel or limiting their rights, and ceasing to approve the establishment of additional branches. Under extreme circumstances or when commercial banks fail to rectify within the period specified by the CBIRC, the CBIRC may order it to suspend business for rectification and revoke its business license. The CBIRC may take over or procure the reorganization of banking financial institutions which have seriously affected the legal rights and benefits of depositors and other clients, in the event of an actual or potential credit crisis or bankruptcy.

PBOC

As the central bank of the PRC, the PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the financial markets. According to the PRC PBOC Law, the PBOC is empowered to:

(1) enforcing relevant rules and regulations that are related to fulfilling its functions;

(2) formulating and implementing monetary policy in accordance with law;

(3) issuing the Renminbi and administering its circulation;

(4) regulating the inter-bank lending market and the inter-bank bond market;

(5) implementing foreign exchange management, supervising inter-bank foreign exchange market;

(6) supervising and regulating gold market;

(7) holding and managing the state foreign exchange and gold reserves;

(8) making payment and settlement rules in collaboration with relevant departments and ensuring normal operation of the payment and settlement systems;

(9) providing guidance to anti-money laundering work in the financial sector and monitoring money-laundering related suspicious fund movement;

(10) developing statistics system for the financial industry and responsible for the consolidation of financial statistics as well as the conduct of economic analysis and forecast; and

(11) participating in international financial activities at the capacity of the central bank.

Other Regulatory Authorities

In addition to the CBIRC and PBOC, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including, among others, the SAFE and CSRC. For example, in conducting foreign exchange business, banks are subject to the regulation of SAFE; in dealing with securities-related matters such as distributing securities investment funds or acting as the custodians of investment assets of securities institutional investors, banks are subject to the regulation of CSRC.

Regulations Regarding Capital Adequacy

Capital Adequacy Guidelines

In March 2004, the CBRC implemented capital adequacy guidelines applicable to all commercial banks in the PRC. The guidelines, the Capital Adequacy Measures, provided for a phase-in period whereby all domestic banks must have met minimum capital adequacy ratios by 1 January 2007. On 3 July 2007, the CBRC amended the Capital Adequacy Measures issued in March 2004 to set forth new and more stringent capital adequacy guidelines which must be complied with from 3 July 2007.

In January 2013, the CBRC implemented the Capital Management Rules regulating capital adequacy ratios ("**CAR**") of PRC commercial banks. The Capital Management Rules, which are intended to reflect the Basel III regulatory capital requirements, set out minimum CAR requirements for commercial banks and provide detailed guidelines on the calculation of "capital" and "risk-weighted assets". The CBRC promulgated the Capital Management Rules on 7 June 2012 based on the reform of the banking industry and the existing regulatory framework of the PRC. The Capital Management Rules establish a unified regulatory system in respect of the capital adequacy ratio, clarify the definition of capital, expand the range of capital risk coverage, raise the bottom line for the capital adequacy ratio and set a six-year transition period (from 2013 to 2018) for banks to comply with capital adequacy ratio requirements. On 30 November 2012, the CBRC issued the Notice on Matters in relation to the Implementation of Transition Period Arrangements in the (Trial) Measures on the Administration of the Capital of Commercial Banks, which provides the regulatory standards and implementation course for the transition period. As a result, the Bank is required to maintain a minimum core tier one capital adequacy of 5 per cent., a minimum tier one capital adequacy of 6 per cent. and a minimum capital adequacy of 8 per cent. In addition, the domestic systemically important bank is required to maintain a further 1 per cent. capital surcharge above prevailing Core Tier 1 Capital requirements. The CARs are calculated in accordance with the Capital Management Rules as follows:

$$\text{CAR} = \frac{\text{Total Capital} - \text{deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Tier 1 CAR} = \frac{\text{Tier 1 Capital} - \text{deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Core Tier 1 CAR} = \frac{\text{Core Tier 1 Capital} - \text{deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

Further details regarding the basic principles of such calculations can be obtained at the official website of the CBRC.

The contents of this website do not form a part of this Offering Circular.

On 29 November 2012, the CBRC released the Guiding Opinions on Commercial Banks' Innovation on Capital Instruments (《中國銀監會關於商業銀行資本工具創新的指導意見》)(the "**Guiding Opinions**"), allowing and encouraging commercial banks to develop capital instruments (including Tier 2 capital instruments) that comply with the Capital Management Rules. Pursuant to the Guiding Opinions, Additional Tier 1 Capital instruments and tier 2 capital instruments issued by a commercial bank after 1 January 2013 must contain a provision that requires such instruments to be either written off or converted into common stock upon the occurrence of a triggering event. A triggering event for Additional Tier 1 Capital instruments occurs when the Core Tier 1 CAR of the commercial bank falls to 5.125 per cent. or below. A triggering event for tier 2 capital instruments occurs upon the earlier of: (i) a decision of write-off or share conversion, without which the commercial bank would become nonviable, as determined by the CBRC; or (ii) a decision to make a public sector injection of capital or equivalent support, without which the commercial bank would have become non-viable, as determined by relevant authorities.

On 22 November 2019, the CBIRC issued the Circular of the CBIRC on Issuing the Guiding Opinions on the Innovation of Capital Instruments of Commercial Banks (Revised)(《中國銀保監會關於印發〈關於商業銀行資本工具創新的指導意見(修訂)〉的通知》), which provides that additional tier 1 capital instruments and tier 2 capital instruments issued by commercial banks shall conform to the relevant provisions of the Administrative Measures for Capital (for Trial Implementation) and meet the relevant standards set forth in the Guiding Opinions in the ways agreed in specific contracts. Moreover, commercial banks shall submit their schemes for capital instrument issuance to the CBIRC or its local offices, which will confirm the capital attribute of the capital instruments to be issued to the extent of regulatory duties and perform the examination and approval procedures in accordance with pertinent laws and regulations.

Risk Management Guidance

On 30 September 2016, the CBRC released the Guidance on Comprehensive Risk Management of Banking Financial Institutions (《銀行業金融機構全面風險管理指引》) which effective date is 1 November 2016, requiring the banking financial institutions to establish a comprehensive risk management system and combine qualitative and quantitative methods to identify, measure, assess, monitor, report, control or mitigate various types of risks borne by them. These risks include credit risk, market risk, liquidity risk, operational risk, country risk, bank account interest rate risk, reputation risk, strategic risk, information technology risk and other risks. The comprehensive risk management system of a financial institution in the banking industry shall consider the correlation between risks, prudently evaluate the mutual impact between various types of risks, and prevent cross-border and cross-sector risks.

This section summarises the principal PRC laws and regulations which are relevant to the remittance of the proceeds of the Bonds into the PRC and provision by the LC Bank of the Standby Letter of Credit. As this is a summary, it does not contain a detailed analysis of the PRC laws and regulations which are relevant in the context of the offering of the Bonds.

The PRC Legal System

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws and laws resulting from international treaties entered into by the PRC government. In general, only limited volumes of published court decisions may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases.

The NPC and the NPCSC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil, criminal and other matters. The NPCSC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC and the NPCSC. In the event that a conflict arises, the NPCSC has the power to annul administrative regulations which contradict the PRC Constitution and the national laws, while the State Council has the power to alter or annul any inappropriate rules of the ministries under the State Council. The people's congresses or their standing committees of the provinces, autonomous regions and municipalities directly under the Central Government may, in light of the specific conditions and actual needs of their respective administrative areas, enact local regulations, provided that such regulations do not contradict the PRC Constitution, the national laws and the administrative regulations. The People's Congresses or their standing committees of certain large cities may, in light of the specific local conditions and actual needs, enact local regulations, provided that they do not contradict the PRC Constitution, the national laws, the administrative regulations and the 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.

The people's governments of the provinces, autonomous regions, municipalities directly under the Central Government and certain large cities may, in accordance with the national laws and administrative regulations and the local regulations of their respective province, autonomous regions or municipalities, enact rules.

In relation to certain matters except the coercive measures and punishment in respect to crime and criminal penalty, deprivation of political rights and restriction of personal liberty, and to judicial system, the State Council can enact administrative regulations under the authorisation from the NPC and the NPCSC. After such administrative regulations have been tested in practice and when the conditions are mature for enacting a law on the aforementioned matters, the State Council shall propose to the NPC and the NPCSC in a timely manner for enacting the law.

The PRC Constitution vests the power to interpret laws in the NPCSC. The Supreme People's Court has the power to give general interpretation on the application of laws in judicial proceedings, according to Resolution of the NPCSC 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). The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional rules and regulations is vested in the regional legislative and administrative bodies which promulgated such laws.

The PRC Judicial System

Under the PRC Constitution and the Law of Organisation of the People's Courts, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts.

The local courts are comprised of the basic courts, the intermediate courts and the higher courts.

The basic courts are organised into civil, criminal, economic, administrative and other divisions. The intermediate courts are organised into divisions similar to those of the basic courts, and are further organised into other special divisions, such as the intellectual property division. The judicial work of the courts at lower levels is subject to supervision by the courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts. The courts employ a two-tier appellate system. A party may appeal against a judgement or order of a local court to the court at the next higher level. Second judgements or orders given at the next higher level and the first judgements or orders given by the Supreme People's Court are final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgement which has been given by any court at a lower level, or the president of a court finds an error in a judgement which has been given in the court over which he presides, the case may then be retried in accordance with the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on 9 April 1991 and amended respectively on 28 October 2007, 31 August 2012 and 27 June 2017, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the place of the object of the contract. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If the courts of a foreign country impose restrictions on the civil procedural rights of PRC citizens, legal persons and other organisations, the PRC courts shall apply the principle of reciprocity to the civil procedural rights of citizens, legal persons and organisations of such a foreign country. If any party to a civil action refuses to comply with a judgement or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of the judgement, order or award. The time limit imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

Where a party applies for enforcement of an effective judgment or ruling of a court, if the party against whom enforcement is sought or the property thereof is not within the territory of the PRC, the applicant may apply directly to the foreign court having jurisdiction for recognition and enforcement, or apply to a PRC court for such court to request recognition and enforcement by the foreign court in accordance with the provisions of an international treaty concluded or acceded to by the PRC or under the principle of reciprocity. Where a valid and effective judgment or ruling of a foreign court requires recognition and enforcement by a court of the PRC, a party may apply directly to the intermediate court of the PRC having jurisdiction for recognition and enforcement, or apply to the foreign court for the foreign court to request recognition and enforcement by the PRC court in accordance with the provisions of an international treaty concluded or acceded to by the PRC or under the principle of reciprocity. After examining an application or request for recognition and enforcement of a valid and effective judgment or ruling of a foreign court in accordance with an international treaty concluded or acceded to by the PRC or under the principle of reciprocity, a PRC court shall issue a ruling to recognise the legal force of the judgment or ruling and issue an order for enforcement as needed to enforce the judgment or ruling according to the relevant provisions of the Civil Procedure Law of the PRC if the PRC court deems that the judgment or ruling does not violate the basic principles of the laws of the PRC and the sovereignty, security and public interest of the PRC. If the judgment or ruling violates the basic principles of the laws of the PRC or the sovereignty, security or public interest of the PRC, the PRC court shall not grant recognition and enforcement.

NDRC Registration

On 14 September 2015, the NDRC issued the NDRC Notice (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》)(發改外資[2015]2044號), which became effective on the same day. In order to encourage the use of low-cost capital in the international capital markets in promoting investment and steady growth and to facilitate cross-border financing, the NDRC Notice abolishes the case-by-case quota review and registration system for the issuance of foreign debts by PRC enterprises and sets forth the following measures to promote the administrative reform of the issuance of foreign debts by PRC enterprises or overseas enterprises and branches controlled by such PRC enterprises:

- steadily promote the administrative reform of the filing and registration system for the issuance of foreign debts by enterprises;
- increase the size of foreign debts issued by enterprises, and support the transformation and upgrading of key sectors and industries;
- simplify the filing and registration of the issuance of foreign debts by enterprises; and
- strengthen the supervision during and after the process to prevent risks.

For the purposes of the NDRC Notice, "foreign debts" means RMB-denominated or foreign currency-denominated debt instruments with a maturity of one year or above which are issued offshore by PRC enterprises and their controlled offshore enterprises or branches and for which the principal and interest are repaid as agreed, including offshore bonds and long-term and medium-term international commercial loans, etc. According to this definition, offshore bonds issued by both PRC enterprises and their controlled offshore enterprises or branches shall be regulated by the NDRC Notice.

Pursuant to the NDRC Notice, an enterprise must: (i) apply to the NDRC for the filing and registration procedures prior to the issuance of the bonds; and (ii) report the information on the issuance of the bonds to NDRC within ten working days after the completion of each issuance. The materials to be submitted by an enterprise must include an application report and an issuance plan, setting out details such as the currency, size, interest rate, term, use of proceeds and remittance details. The NDRC must decide whether to accept an application within five working days of receipt and issue an enterprise foreign debt pre-issuance registration certificate within seven working days of accepting the application.

To issue foreign debts, an enterprise must meet these basic conditions:

- have a good credit history with no default in its issued bonds or other debts;
- have sound corporate governance and risk prevention and control mechanisms for foreign debts; and
- have a good credit standing and relatively strong capability to repay its debts.

Pursuant to the NDRC Notice, the NDRC must control the overall size of foreign debts that can be raised by PRC enterprises and their controlled overseas branches or enterprises. Based on trends in the international capital markets, the needs of the PRC economic and social development and the capacity to absorb foreign debts, the NDRC must reasonably determine the overall size of foreign debts and guide the funds towards key industries, key sectors, and key projects encouraged by the State, and effectively support the development of the real economy. When the limit of the overall size of foreign debts has been exceeded, the NDRC must make a public announcement and no longer accept applications for filing and registration. According to the NDRC Notice, the proceeds raised may be used onshore or offshore according to the actual needs of the enterprises, but priority must be given to supporting the investment in major construction projects and key sectors, such as "One Belt One Road（一帶一路）", the Integration of Beijing-Tianjin-Hebei, the Yangtze River Economic Belt, international cooperation on production capacity, and the manufacturing of equipment. Meanwhile, it should be mentioned that certain detailed aspects of its interpretation and application remain subject to further clarification.

PRC CURRENCY CONTROLS

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

Current Account Items

Under the PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers into and outside the PRC.

Pursuant to the Measures on the Trial Administration of Settling Cross-Border Transactions in Renminbi (跨境貿易人民幣結算試點管理辦法) which was promulgated on 1 July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in certain pilot regions. On 17 June 2010, 27 July 2011 and 3 February 2012 respectively, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement (關於擴大跨境貿易人民幣結算地區的通知) and the Notice on Matters Relevant to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods (關於出口貨物貿易人民幣結算企業管理有關問題的通知) (together as "**Circulars**"). Pursuant to these Circulars, (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover all provinces and cities in the PRC, (iii) the restriction on designated offshore districts has been lifted and (iv) any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports of goods without obtaining the approval as previously required, provided that the relevant provincial government has submitted to PBOC and five other PRC authorities (the "**Six Authorities**") a list of key enterprises subject to supervision and the Six Authorities have reviewed and approved such list (the "**Supervision List**").

Accordingly, offshore enterprises are entitled to use Renminbi to settle imports of goods and services and other current account items. Renminbi remittance for exports of goods from the PRC may only be effected by (a) enterprises with the foreign trading right and incorporated in a province which has already submitted the Supervision List (for the avoidance of doubt, that PRC enterprises do not necessarily need to be included in the Supervision List), or (b) enterprises that have been approved as pilot enterprises for using Renminbi for exports before the Six Authorities reviewed and approved the Supervision List submitted by relevant province.

On 5 July 2013, PBOC promulgated the *Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures* (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the "**2013 PBOC Circular**"), which, in particular, simplifies the procedures for cross border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank's verification of underlying transactions on a need basis (noting that verification of underlying transactions is usually a precondition for cross border remittance).

As new regulations, the Circulars and the 2013 PBOC Circular will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Circulars and the 2013 PBOC Circular and impose conditions for settlement of current account items.

Capital Account Items

Under the PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement for capital account items were generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or relevant PRC parties were also generally required to make capital account payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency.

On 7 April 2011, SAFE promulgated the Circular on Issues Concerning the Capital Account Items in connection with Cross-Border Renminbi (關於規範跨境人民幣資本項目業務操作有關問題的通知)("**SAFE RMB Circular**"), which became effective on 1 May 2011. According to the SAFE RMB Circular in the event that foreign investors intend to use cross-border Renminbi (including offshore Renminbi and onshore Renminbi held in the capital accounts of non-PRC residents) to make contributions to an onshore enterprise or make payments for the transfer of an equity interest of an onshore enterprise by a PRC resident, such onshore enterprise shall be required to submit the prior written consent of the MOFCOM or the relevant local counterparts to the relevant local branches of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE RMB Circular clarifies that the foreign debts borrowed, and the external guarantee provided, by an onshore entity in Renminbi shall, in principle, be regulated under the current PRC foreign debt and external guarantee regime.

On 13 October 2011, the PBOC promulgated the "Administrative Measures on Renminbi Settlement of Foreign Direct Investment"(外商直接投資人民幣結算業務管理辦法)(the "**PBOC FDI Measures**"), which was amended by the Announcement on Revising Certain Articles of Two Departmental Rules Including the Administrative Provisions on Overseas Foreign Exchange Accounts and Five Regulatory Documents Including the Interim Provisions on the Administration of Domestic Foreign Exchange Transfer (關於對《境外外匯賬戶管理規定》等2件部門規章和《境內外匯劃轉管理暫行規定》等5件規範性文件予以修改的公告), as part of the implementation of the PBOC's detailed Renminbi foreign direct investments ("**FDI**") accounts administration system. The system covers almost all aspects in relation to FDI, including capital injections, payments for the acquisition of PRC domestic enterprises, repatriation of dividends and other distributions, as well as Renminbi denominated cross-border loans. Under the PBOC FDI Measures, special approval for FDI and shareholder loans from the PBOC, which was previously required, is no longer necessary. In some cases however, post-event filing with the PBOC is still necessary. On 14 June 2012, the PBOC further issued the implementing rules for the PBOC FDI Measures, as amended by the Announcement on Revising Certain Articles of Two Departmental Rules Including the Administrative Provisions on Overseas Foreign Exchange Accounts and Five Regulatory Documents Including the Interim Provisions on the Administration of Domestic Foreign Exchange Transfer (關於對《境外外匯賬戶管理規定》等2件部門規章和《境內外匯劃轉管理暫行規定》等5件規範性文件予以修改的公告), which provides more detailed rules relating to cross-border Renminbi direct investments and settlement.

Pursuant to the PBOC Circular on Clarifying the Detailed Operating Rules for RMB Settlement Business in Relation to Foreign Direct Investment (中國人民銀行關於明確外商直接投資人民幣結算業務操作細則的通知)(the "**PBOC RMB FDI Detailed Rules**") which was promulgated on 14 June 2012 and the Announcement on Revising Certain Articles of Two Departmental Rules Including the Administrative Provisions on Overseas Foreign Exchange Accounts and Five Regulatory Documents Including the Interim Provisions on the Administration of Domestic Foreign Exchange Transfer (關於對《境外外匯賬戶管理規定》等2件部門規章和《境內外匯劃轉管理暫行規定》等5件規範性文件予以修改的公告)

which was promulgated on 5 June 2015, a foreign-invested enterprise shall not use RMB funds in its RMB special deposit account for registered capital purposes, nor shall it use RMB funds in its RMB general offshore loan deposit account for the purchase of financial products or properties not for its own use. Further, foreign-invested enterprises that are not investment companies must not use such RMB funds for reinvestment within the territory of the PRC.

On 11 May 2013, SAFE promulgated the *Provisions on the Foreign Exchange Administration of Domestic Direct Investment by Foreign Investors* (外國投資者境內直接投資外匯管理規定)(the "**SAFE Provisions**"), which became effective on 13 May 2013 and was amended by the Notice by the State Administration of Foreign Exchange of Announcing the Repealing and Invalidation of Certain Regulatory Documents and Relevant Clauses on Foreign Exchange Administration (《國家外匯管理局關於廢止和失效5件外匯管理規範性文件及7件外匯管理規範性文件條款的通知》). According to the SAFE Provisions, foreign investors can use cross-border Renminbi (including Renminbi inside and outside the PRC held in the capital accounts of non-PRC residents) to make a contribution to an onshore enterprise or make a payment for the transfer of an equity interest of an onshore enterprise held by a PRC resident. Capital account transactions in Renminbi must generally follow the current foreign exchange control regime applicable to foreign currencies.

On 3 December 2013, MOFCOM promulgated the "Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment" (商務部關於跨境人民幣直接投資有關問題的公告)(the "**MOFCOM Circular**"), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits the FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

To support the development of the China (Shanghai) Pilot Free Trade Zone (the "**Shanghai FTZ**"), the Shanghai Head Office of the PBOC issued the Circular on Supporting the Expanded Cross-border Utilisation of Renminbi in the Shanghai FTZ (關於支持中國(上海)自由貿易試驗區擴大人民幣跨境使用的通知)(the "**PBOC Shanghai FTZ Circular**") on 20 February 2014, which allows banks in Shanghai to directly handle the cross-border RMB settlement under recurring items and direct investment items by presenting the collection and payment instructions submitted by the institutions in Shanghai (except for those in the list of enterprises subject to key regulation for RMB settlement of exports trade) and individuals, based on the principles of "knowing your client", "knowing your business" and "due diligence". When handling the settlement under direct investment items for the above subjects, banks shall, according to the requirements of the negative list approach for investment admission of the Shanghai FTZ, require the presenting of the approval documents issued by the approval authority for cross-border RMB settlement under direct investment items within the scope of the negative list approach. However, the application of the Shanghai FTZ Circular is limited to the Shanghai FTZ.

On 13 February 2015, the SAFE promulgated the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》)(the "**2015 SAFE Circular**"), which became effective on 1 June 2015 and was amended by the Notice by the State Administration of Foreign Exchange of Announcing the Repealing and Invalidation of Certain Regulatory Documents and Relevant Clauses on Foreign Exchange Administration (《國家外匯管理局關於廢止和失效5件外匯管理規範性文件及7件外匯管理規範性文件條款的通知》). The 2015 SAFE Circular aims to deepen the reform of foreign exchange administration of capital accounts, promote and facilitate the capital operation of enterprises in making cross-border investments, regulate the direct investment-related foreign exchange administration business, improve the administration efficiency. The 2015 SAFE Circular set forth the following reformation: (i) cancel the Administrative Examination and

Approval Procedures relating to the Foreign Exchange Registration Approval under Domestic Direct Investment and the Foreign Exchange Registration Approval under Overseas Direct Investment; (ii) cancel the requirements to provide the confirmation, and apply for the registration, of foreign investors' nonmonetary contribution and provide the confirmation, and apply for the registration, of foreign investors' contribution to purchasing the equity held by the party incorporated in the PRC under domestic direct investment; (iii) the requirements to provide the confirmation, and apply for the registration, of foreign investors' monetary contribution has been replaced by the requirement to apply for a book-entry registration of domestic direct investment monetary contribution.

The MOFCOM Circular and the PBOC FDI Measures and the 2015 SAFE Circular, which are new regulations, have been promulgated to control the remittance of Renminbi for payment of transactions categorised as capital account items and such new regulations will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

TAXATION

The following summary of certain British Virgin Islands, Hong Kong, PRC and EU tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Bonds or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds.

Persons considering the purchase of the Bonds should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

British Virgin Islands

The Issuer and all dividends, interest, rents, royalties, compensation and other amounts paid by the Issuer to persons who are not resident in the British Virgin Islands are exempt from the provisions of the Income Tax Act in the British Virgin Islands, and any capital gains realised with respect to any shares, debt obligations, or other securities of the Issuer by persons who are not resident in the British Virgin Islands are exempt from all forms of taxation in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations or other securities of the Issuer.

All instruments relating to transfers of property to or by the Issuer and all instruments relating to transactions in respect of the shares, debt obligations or other securities of the Issuer and all instruments relating to other transactions relating to the business of the Issuer are exempt from payment of stamp duty in the British Virgin Islands. This assumes that the Issuer does not hold an interest in real estate in the British Virgin Islands.

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer or its members.

Hong Kong

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal (including any premium payable on redemption of the Bonds) or interest on the Bonds or in respect of any capital gains arising from the sale of the Bonds.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) Interest on the Bonds is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(b) Interests on the Bond is derived from Hong Kong and is received by or accrues to a person other than a corporation (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business; and

(c) Interests on the Bond is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap.112) of Hong Kong) by way of interest which arises through or from the carrying on by the financial institution of its business in Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Bonds will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, from the carrying on of a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Bondholders in this "Taxation – PRC" section. In considering whether to invest in the Bonds, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the EIT Law and its implementation regulations, which was amended from time to time, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose place of effective management is within the territory of the PRC shall be regarded as PRC tax resident enterprises for the purpose of the EIT Law and they shall pay EIT (the prevailing standard EIT rate is 25 per cent.) in respect of their income sourced from both within and outside the PRC. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the place of effective management of the Issuer is within the territory of PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to EIT at the rate of 25 per cent. in respect of its income sourced from both within and outside PRC. As confirmed by the Issuer, as of the date of this Offering Circular, the Issuer has not been noticed or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law. On that basis, non-resident enterprise Bondholders will not be subject to income tax imposed by any tax authority in the PRC in respect of the holding of the Bonds or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and the IIT Law and their respective implementation regulations, any non-resident enterprise without an establishment within the PRC, or where its incomes have no actual connection to its establishment inside the PRC, shall pay EIT at the rate of 10 per cent. and any non-resident individual shall pay IIT at the rate of 20 per cent. respectively on the incomes sourced inside the PRC unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. Such income tax shall be withheld by the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the interest derived by the non-resident Bondholders would be considered as PRC-sourced and the Issuer shall withhold income tax from the payments of interest in respect of the Bonds for any non-resident Bondholders. However, despite the potential withholding of PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to Bondholders so that Bondholders would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Bonds.

Further, in the event that the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the capital gains derived by the non-resident Bondholders may be considered as China-sourced. Any non-resident enterprise Bondholders and non-resident individual Bondholders may be subject to EIT and IIT at 10 per cent. and 20 per cent. respectively on the gains realised on the transfer of the Bonds unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. According to the double taxation arrangement between China and Hong Kong, residents of Hong Kong will not be subject to PRC tax on any capital gains from a sale or exchange of the Bonds if such capital gains are not connected with an office or establishment that the Bondholders have in the PRC and all the other relevant conditions are satisfied.

Value-added Tax ("VAT")

On 23 March 2016, the MOF and the SAT promulgated the Circular on Comprehensively Promoting the Pilot Programme of the Collection of VAT to Replace BT《關於全面推開營業稅改徵增值稅試點的通知》(Caishui [2016] No. 36, "**Circular 36**") which confirms that BT has been completely replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which previously attracted business tax at 5 per cent. became subject to VAT at 6 per cent.

According to Circular 36 and other relevant VAT circulars, interest income or income arising from the holding of Bonds to maturity fall within the scope of loan services (a sub-category under the category of financial services) and therefore attract VAT at 6 per cent. Also, the disposal of any Bonds prior to maturity falls within the scope of the transfer of financial products (a sub-category under the category of financial services) and therefore attract VAT at 6 per cent. too on the gain derived. The VAT implications are further discussed below.

Interest income or income arising from holding the Bonds to maturity

Circular 36 provides that a service is generally subject to VAT in the PRC if either the service provider or the service recipient is located in the PRC. Here the Issuer is incorporated outside of the PRC. If the holder of the Bonds is an entity or individual located outside of the PRC, then VAT shall generally not apply to the interest income or income arising from the holding of the Bonds to maturity.

However, if the holder of the Bonds is an entity or individual located in the PRC, VAT generally applies to the income arising from the holding of the Bonds (including the interest income or income arising from holding the Bonds to maturity). The holder of the Bonds is responsible for filing and paying any VAT as well as any local levies where applicable.

Disposal of the Bonds before maturity

As discussed above, any disposal of the Bonds prior to maturity falls within the scope of transfer of financial products and therefore attracts VAT at 6 per cent. too, based on the gain derived. However, a disposal of the Bonds by a holder that is located outside of the PRC to another entity or individual also located outside of the PRC is not subject to VAT.

Technically VAT may apply if either the seller or the buyer of Bonds is located within the PRC, and the counterparty is not within the PRC. However, there is no guidance released by the PRC tax authorities as to whether VAT applies if such a transaction is carried out in an offshore exchange market.

Moreover, where the buyer of the Bonds is located within the PRC and the seller is not, it is difficult to see the basis upon which the buyer should withhold any VAT. The seller and the buyer are recommended to seek specific tax advice where necessary.

Withholding tax on payments under the Standby Letter of Credit

If CCB or any onshore branch of CCB makes any payments to non-resident enterprise or individual Bondholders in respect of interest on the Bonds under the Standby Letter of Credit on behalf of the LC Bank, CCB or such onshore branch will be obliged to withhold PRC EIT at the rate of up to 10 per cent. and IIT at the rate of 20 per cent. on such payments to non-resident enterprise Bondholders and non-resident individual Bondholders, respectively as such payments will be regarded as being derived from sources within the PRC. VAT at a rate of 6 per cent. may be also applicable. In addition, under such an interpretation, Bondholders may become subject to local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies payable on interest due to Bondholders could be up to 6.72 per cent. The LC Bank will pay additional amounts to Bondholders so that such Bondholders would receive the full amount of the scheduled payments of interest, as further set out in the Standby Letter of Credit.

Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

United States' Foreign Account Tax Compliance Act Tax Provisions

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes ("**foreign pass-thru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to the date that is two years after the date on which final regulations defining "**foreign pass-thru payments**" are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicates that taxpayers may rely on the proposed regulations until the issuance of final regulations. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Bonds.

SUBSCRIPTION AND SALE

The Issuer has entered into a subscription agreement with BOSC International Company Limited, China Construction Bank (Asia) Corporation Limited, Merrill Lynch (Asia Pacific) Limited, Crédit Agricole Corporate and Investment Bank, ABCI Capital Limited, Agricultural Bank of China Limited Hong Kong Branch, Bank of China Limited, China Everbright Securities (HK) Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, Dongxing Securities (Hong Kong) Company Limited, Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited, Industrial and Commercial Bank of China (Asia) Limited, Nanyang Commercial Bank, Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, Standard Chartered Bank and Zhongtai International Securities Limited (the "**Joint Lead Managers**") dated 2 September 2020 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Joint Lead Managers, which have severally and not jointly agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Bonds at an issue price of 99.988 per cent. of their principal amount (the "**Issue Price**") in the amount set forth below. Any subsequent offering of the Bonds to investors may be at a price different from such Issue Price:

	Principal amount of Bonds
	(U.S.$)
BOSC International Company Limited	58,750,000
China Construction Bank (Asia) Corporation Limited	58,750,000
Merrill Lynch (Asia Pacific) Limited	58,750,000
Crédit Agricole Corporate and Investment Bank	58,750,000
ABCI Capital Limited	5,000,000
Agricultural Bank of China Limited Hong Kong Branch	5,000,000
Bank of China Limited	5,000,000
China Everbright Securities (HK) Limited	5,000,000
China Minsheng Banking Corp., Ltd., Hong Kong Branch	5,000,000
Dongxing Securities (Hong Kong) Company Limited	5,000,000
Guotai Junan Securities (Hong Kong) Limited	5,000,000
Haitong International Securities Company Limited	5,000,000
Industrial and Commercial Bank of China (Asia) Limited	5,000,000
Nanyang Commercial Bank, Limited	5,000,000
Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch	5,000,000
Standard Chartered Bank	5,000,000
Zhongtai International Securities Limited	5,000,000
Total	**300,000,000**

The Subscription Agreement provides that the Issuer will indemnify each of the Joint Lead Managers and its related parties against certain liabilities in connection with the offer and sale of the Bonds.

The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent and entitles the Joint Lead Managers to terminate the Subscription Agreement in certain circumstances at any time prior to the payment of the gross proceeds of the issue of the Bonds to the Issuer on the Closing Date. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Manager or any of its affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Joint Lead Manager or its affiliate on behalf of the Issuer in such jurisdiction.

The Joint Lead Managers and their affiliates may have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory and commercial and investment banking services, for the Issuer, the Bank and their respective affiliates in the ordinary course of business, for which they received or will receive customary fees and agreed expenses.

The Joint Lead Managers and their affiliates may purchase the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution. Such entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer or the Bank, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the offering contemplated herein. Accordingly, references herein to the Bonds being "offered" should be read as including any offering of the Bonds to the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer or the Bank for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Bonds. If this is the case, liquidity of trading in the Bonds may be constrained. The Issuer, the Bank and the Joint Lead Managers are under no obligation to disclose the extent of the distribution of the Bonds amongst individual investors.

The Joint Lead Managers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Joint Lead Managers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer and/or the Bank or its subsidiaries, jointly controlled entities or associated companies and may be paid fees in connection with such services from time to time. In the ordinary course of its various business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such transactions, investments and securities activities may involve securities and instruments of the Issuer and/or the Bank or their respective subsidiaries, jointly controlled entities or associated companies, may be entered into at the same time or proximate to offers and sales of Bonds or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Bonds. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer and/or the Bank routinely hedge their credit exposure to the Issuer and/or the Bank consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's and/or the Bank's securities, including potentially the Bonds offered hereby. Any such short positions could adversely affect future trading prices of the Bonds offered hereby. The Joint Lead Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Bonds or other financial instruments of the Issuer or the Bank, and may recommend to their clients that they acquire long and/or short positions in the Bonds or other financial instruments.

General

The Bonds are a new issue of securities with no established trading market. No assurance can be given as to the liquidity of any trading market for the Bonds.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisors as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been taken or will be taken in any jurisdiction by the Issuer, the Bank or the Joint Lead Managers that would, or is intended to, permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each of the Joint Lead Managers agrees that it will comply to the best of its knowledge in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, purchases, offers, sells or delivers Bonds or has in its possession or distributes this Offering Circular or any amendment or supplement thereto or any such other material, in all cases at its own expense. None of the Issuer, the Bank or the Joint Lead Managers will have any responsibility for, and each of the Joint Lead Managers will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of the Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Joint Lead Managers are not authorised to make any representation or use any information in connection with the issue, subscription and sale of the Bonds other than as contained in, or which is consistent with, this Offering Circular or any amendment or supplement thereto.

Accordingly, the Bonds should not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material, circular, prospectus, form of application nor advertisement in connection with the Bonds should be distributed or published in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations.

United States

The Bonds and the Standby Letter of Credit have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each Joint Lead Manager has represented, warranted and undertaken to the Issuer and the Bank that:

(i) *Offers/sales only in accordance with Regulation S:* it has not offered or sold, and will not offer or sell, any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S; and

(ii) *No directed selling efforts*: neither it nor any of its Affiliates (nor any person acting on behalf of the Joint Lead Manager or any of its Affiliates) has engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Bonds.

Terms used in the paragraph above have the meanings given to them by Regulation S under the Securities Act.

United Kingdom

Each of the Joint Lead Managers has represented, warranted and undertaken that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Bank; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Hong Kong

Each Joint Lead Manager has represented, warranted and undertaken that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the

Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

PRC

Each Joint Lead Manager has represented, warranted and undertaken that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Singapore

Each Joint Lead Manager has acknowledged that each of the Offering Circulars has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and undertaken that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circulars or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term or provision as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Joint Lead Manager has represented, warranted and undertaken that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

British Virgin Islands

No invitation has been or will be made directly or indirectly to the public in the British Virgin Islands or a natural person who is a British Virgin Islands resident or citizen to offer or sell the Bonds and the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the British Virgin Islands.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN PRC GAAP AND IFRS

The consolidated financial statements of the Bank have been prepared and presented in accordance with PRC GAAP. PRC GAAP are substantially in line with IFRS, except for certain modifications which reflect the PRC's unique circumstances and environment. The following is a general summary of certain differences between PRC GAAP and IFRS on recognition and presentation as applicable to the Bank. The Bank is responsible for preparing the summary below. Since the summary is not meant to be exhaustive, there is no assurance regarding the completeness of the financial information and related footnote disclosure as to the difference between PRC GAAP and IFRS and no attempt has been made to quantify such differences. Had any such quantification or reconciliation been undertaken by the Bank, other potentially significant accounting and disclosure differences may have been required that are not identified below. Additionally, no attempt has been made to identify possible future differences between PRC GAAP and IFRS as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate PRC GAAP and IFRS have significant ongoing projects that could affect future comparisons or events that may occur in the future.

Accordingly, there is no assurance that the following summary of differences between PRC GAAP and IFRS is complete. In making an investment decision, each investor must rely upon its own examination of the Bank, the terms of the offering and other disclosure contained herein. Each investor should consult its own professional advisors for an understanding of the differences between PRC GAAP and IFRS and/or between PRC GAAP and other generally accepted accounting principles, and how those differences might affect the financial information contained herein.

Reversal of an Impairment Loss

Under PRC GAAP, once an impairment loss is recognised for a long-term asset (including fixed assets, intangible assets and goodwill, etc.), it shall not be reversed in any subsequent period. Under IFRS, an impairment loss recognised in prior periods for an asset other than goodwill could be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Related Party Disclosures

Under PRC GAAP, government related entities are not treated as related parties. Under IFRS, government related entities are still treated as related parties.

GENERAL INFORMATION

1. **Clearing Systems**: The Bonds have been accepted for clearance through Euroclear and Clearstream. The Common Code for the Bonds is 221237382 and the International Securities Identification Number of the Bonds is XS2212373828.

2. **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of, and performance of its obligations under, the Bonds, the Trust Deed and the Agency Agreement. The issue of the Bonds was authorised by the written resolutions of the directors of the Issuer on 31 August 2020. The Bank has obtained all consents, approvals and authorisations in connection with entry into the Keepwell Deed, the Trust Deed and the Agency Agreement. The execution of the Keepwell Deed, the Trust Deed and the Agency Agreement were authorised by its internal authorisation document on 5 June 2020. An Enterprise Foreign Debt Filing Certificate dated 4 August 2020 has been obtained from the NDRC in connection with the issuance of the Bonds pursuant to the NDRC Circular and which remains in full force and effect as of the date of this Offering Circular. The Bank intends to provide the requisite information on the issuance of the Bonds to the NDRC within the prescribed timeframe after the Issue Date.

3. **No Material Adverse Change**: Except as disclosed in this Offering Circular, there has been no material adverse change in the condition (financial or otherwise), prospects, results of operations, profitability, shareholder's equity, business, properties or general affairs of the Issuer or the Bank since 30 June 2020.

4. **Litigation**: Neither the Issuer nor the Bank is involved in any litigation or arbitration proceedings that are material in the context of the Bonds nor is the Issuer or the Bank aware that any such proceedings are pending or threatened.

5. **Available Documents**: As long as any Bond is outstanding, copies of the following documents will be available for inspection during normal business hours at the office of the Bank at 168, Yincheng Road Central, Pudong New District, Shanghai, China:

   (a) constitutional documents (or equivalent) of the Issuer and the Bank;

   (b) the Standby Letter of Credit;

   (c) the Trust Deed;

   (d) the Agency Agreement;

   (e) the Keepwell Deed;

   (f) the Audited Financial Statements; and

   (g) the Interim Financial Statement.

6. **Financial Statements**: The Audited Financial Statements have been audited without qualification by KPMG Huazhen, independent auditor of the Bank. The Interim Financial Statement was prepared in conformity with PRC GAAP and reviewed by PricewaterhouseCoopers Zhong Tian LLP.

   English translations of the Audited Financial Statements have been prepared for reference only and are included elsewhere in this Offering Circular. These Financial Statements Translation do not themselves constitute audited or reviewed financial statements and is qualified in their entirety by the Audited Financial Statements. As the Interim Financial Statement has not been translated into

English, investors should endeavour to take the necessary steps to review (including to engage professional advisers to assist with reviewing) the Interim Financial Statement in making their investment decision in the Bonds.

7. **Independent Auditors**: The independent auditor of the Bank for the years ended 31 December 2017, 2018 and 2019 was KPMG Huazhen LLP. The independent auditor of the Bank, PricewaterhouseCoopers Zhong Tian LLP, is appointed by the Bank on 12 June 2020. Both KPMG Huazhen LLP and PricewaterhouseCoopers Zhong Tian LLP are certified public accountants registered in the PRC.

8. **Listing**: Approval-in-principle has been received from the SGX-ST for the listing and quotation of the Bonds. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Approval in-principle obtained for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Bank or the Group or the merits of the Bonds.

   For so long as the Bonds are listed and quoted on the SGX-ST and the rules of the SGX-ST so require, the Bonds will be traded on the SGX-ST in a minimum board lot size of U.S.$200,000 (or its equivalent in foreign currencies).

   For so long as the Bonds are listed and quoted on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Bond Certificate is exchanged for definitive certificates. In addition, in the event that the Global Bond Certificate is exchanged for definitive certificates, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive certificates, including details of the paying agent in Singapore.

9. **CCB Financial Statements**: Any financial information of CCB contained in this Offering Circular has been extracted from publicly available information. Copies of the CCB's published audited consolidated financial statements and unaudited but reviewed interim consolidated financial statements, as well as its public filings, can be downloaded free of charge from the websites of the Hong Kong Stock Exchange at www.hkexnews.hk. The audited consolidated financial statements of CCB were prepared in accordance with IFRS. The Issuer and the Bank have taken reasonable care in the compilation and reproduction of the financial information of CCB contained in this Offering Circular. However, none of the Issuer, the Bank, the Joint Lead Managers, the Trustee and the Agents or any of their respective affiliates, directors, officers, employees or advisers has independently verified such information. Accordingly, such information should not be unduly relied upon. The audited consolidated financial statements and the unaudited but reviewed interim consolidated financial statements of CCB are not included in nor incorporated by reference in this Offering Circular and do not form part of this Offering Circular. The information contained on the websites of the Hong Kong Stock Exchange is subject to change from time to time. No representation is made by the Issuer, the Bank, the Joint Bookrunners and Joint Lead Managers, the Trustee, the Agents, or any of their affiliates, employees or professional advisers, and none of the Issuer, the Bank, the Joint Bookrunners and Joint Lead Managers, the Trustee, the Agents, or any of their affiliates, employees or professional advisers, take any responsibility, for any information contained on websites of the Hong Kong Stock Exchange.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Note:

(1) The independent auditor's reports on the Group's consolidated financial statements for the years ended 31 December 2018 and 2019 set out herein are reproduced from the Group's annual reports for the years ended 31 December 2018 and 2019 respectively. Page references referred to in the above named reports refer to pages set out in such annual reports. The audited financial statements have not been specifically prepared for inclusion in this Offering Circular.

Auditors' Report

KPMG hua-zhen,no.2000944

To the Shareholders of Bank of Shanghai Company Limited:

I. Opinion

We have audited the accompanying financial statements of Bank of Shanghai Company Limited ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated and the Bank's statement of financial position as at 31 December 2019, the consolidated and the Bank's statement of profit or loss and other comprehensive income, the consolidated and the Bank's statement of changes in equity and the consolidated and the Bank's statement of cash flows for the year then ended and notes to the financial statements.

In our opinion, the financial statements give a true and fair view, in all material aspects, of the consolidated and the Bank's financial position as at 31 December 2019 and of its consolidated and the Bank's financial performance and its consolidated and the Bank's cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

II. Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the China Code of Ethics for Certified Public Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of expected credit losses ("ECL") for loans and advances to customers, debt investments, financial guarantees and loan commitments

Refer to the accounting policies in following notes to the Financial Statements: Note III 7: Financial instruments, Note V 8: Loans and advances to customers, Note V 10: Debt investments; and Note V 30: Provision.

The Key Audit Matter	How the matter was addressed in our audit
The Group uses the expected credit loss ("ECL") model to calculate the loss allowance in accordance with CAS 22-Recognition and Measurement of Financial Instruments (revised). The determination of using the ECL model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.	Our audit procedures to assess ECL for loans and advances to customers, debt investments, financial guarantees and loan commitments included the following: · Understanding and evaluating the design and operating effectiveness of the key internal controls over financial reporting related to ECL measurement for loans and advances to customers, debt investments, financial guarantees and loan commitments; - Understanding and evaluating the design and operating effectiveness of the key internal controls of the financial reporting process, including credit approval, recording, monitoring, periodic re-evaluation of credit grading, and the accrual of loss allowance; in particular, we assessed the design and operating effectiveness of the key internal controls over financial reporting related to the classification of loans by credit quality across all stages, debt investments, credit quality of financial guarantees and loan commitments; - Understanding and evaluating the design and operating effectiveness of information system controls, including: general information technology control, completeness of key internal historical data, inter-system data transmission, mapping of parameters of ECL model, and system calculation logic of loss allowance for ECL for loans and advances to customers, debt investments, financial guarantees and loan commitments, based on the works of our Information Technology Risk Management ("IRM") Specialists;

Measurement of expected credit losses ("ECL") for loans and advances to customers, debt investments, financial guarantees and loan commitments	
Refer to the accounting policies in following notes to the Financial Statements: Note III 7: Financial instruments, Note V 8: Loans and advances to customers, Note V 10: Debt investments; and Note V 30: Provision.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group classifies financial instruments into three stages and recognises an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the financial asset, depending on whether credit risk on that financial instrument has increased significantly since initial recognition and whether an asset is considered to be credit-impaired respectively. In particular, the determination of ECL model is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The ECL for loans and advances to customers, debt investments, financial guarantees and loan commitments are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The ECL for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors. Management also exercises judgement in determining the quantum of loss given default based on a range of factors, including available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. Management refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of certain assets and other illiquid collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of loss allowances as at the end of reporting period. Measurement of ECL for loans and advances to customers, debt investments, financial guarantees and loan commitments is subject to inherent uncertainty and involves management judgments, and has an important influence on operation conditions and capital positions of the Group. In view of these reasons, we identified ECL measurement as a key audit matter.	· Evaluating the reliability of ECL models and parameters used, including prudently evaluating stage classification, probability of default, loss given default, exposure at default, discount rate, forward adjustment and other adjustment factors, and evaluating the reasonableness of key management jugments involved, based on the work of our Financial Risk Management ("FRM") Specialists; · Evaluating the completeness and accuracy of key data used by the ECL models. For key internal data related to the original business files, we compared the respective amount of loans and advances to customers, debt investments, financial guarantees and loan commitments in the lists used by the management for the allowances evaluation with the general ledger amounts, in order to assess the completeness of lists. Select samples and compare the information of the loans and advances to customers, debt investments, financial guarantees and loan commitments with relevant agreements and other relevant documents to assess the accuracy of the lists. For key external data, we compared it with public information to check its accuracy; · Evaluating key parameters involving subjective judgments by seeking evidence from external sources and comparing it with internal records including historical loss scenarios and guarantee types. As part of these procedures, we inquired management about the reasons for modifictions of key estimates and parameters input relative to the previous period and the transition period, and assessed the consistency of judgement used by management. We compared economic factors and market information used in the model to evaluate whether it was consistent with the market and economic development. · For key internal data which was generated by the system calculation, we selected samples and compared the input data used in the system with the original business files to evaluate the accuracy of the data input. In addition, involving our information technology risk management specialists, we selected samples and tested the logic of preparing overdue information of loans and advances to customers and debt investments; · Selecting samples to assess the reasonableness of management judgement on whether the credit risk has increased significantly since initial recognition and whether credit impairment has occurred. Selecting samples for credit review based on risk-oriented methods. We analysed the loans and advances to customers, debt investments, financial guarantees and loan commitments by industry sector to select samples in industry sensitive to the current business cycle and regulatory policies; we also focused on samples with perceived higher risk like overdue loans, loans with poor credit grading and loans with poor loss stages. On the basis of sample selection, we reviewed the business documents, checked the overdue information, inquired customer managers about the operation conditions of borrowers, checked the financial information of the borrower and searched for market information about the borrower's business and operation; · Selecting samples, evaluating the reasonableness of loss given default of credit impaired loans and advances to corporate customers and debt investments. Assessing the forecast of recoverable cash flows through inquiry, applying professional judgment and performing independent research. We also evaluated the timing and realisation method of collaterals and considered other sources of repayment asserted by the management. We assessed the consistency of the application of key assumptions made by the management and compared the assumptions with our data sources; · Selecting samples and reviewing the calculation of ECL to assess the application of ECL model by the Group; · Evaluating whether the disclosures relating to ECL for loans and advances to customers, debt investments, financial guarantees and loan commitments meet the disclosure requirements of CAS 37 - Presentation of Financial Instruments (revised).

Consolidation of structured entities	
Refer to the accounting policies in following notes to the Financial Statements: Note III 4: Business combination and consolidated financial statements and Note VI 3: Interests in structured entities not included in the consolidated financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity, through issuing an asset management plan, a wealth management product, an investment fund, a debt investment plan or an asset-backed security. In determining whether the Group should consolidate a structured entity, management is required to consider the risks and rewards retained, the power the Group is able to exercise over the activities of the entity and its ability to influence the Group's own returns from the entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions. We identified the recognition of interests in and consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and nature of each entity.	Our audit procedures to assess the recognition of interests in and consolidation of structured entities included the following: • Understanding and assessing the design and implementation of internal control relating to the judgement process over whether a structured entity is consolidated or not; • Selecting samples and performing the following procedures: -Inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement by the Group with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity; -Inspecting the risk and reward structure of the structured entity, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management's judgement as to the exposure, power, influence to variable returns from the Group's involvement in such an entity; -Evaluating management's analysis of the structured entity, including qualitative analysis and the calculation of the magnitude and variability associated with the Group's economic interests in the structured entity, to assess management's judgement over the Group's ability to influence its own returns from the structured entity; -Assessing management's judgement over whether the structured entity should be consolidated or not; • Evaluating the disclosures relating to structured entities in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

Fair value of financial instruments	
Refer to the accounting policies in following notes to the Financial Statements: Note III 7: Financial Instruments, Note III 15: Fair value measurement; and Note XV: Fair Value of Financial Instruments.	
The Key Audit Matter	**How the matter was addressed in our audit**
Financial instruments carried at fair value account for a significant part of the Group's assets. The effect of fair value adjustments may impact either the profit or loss or other comprehensive income. The valuation of the Group's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data, in particular for level 1 and level 2 financial instruments in the fair value hierarchy, the valuation techniques for which use quoted market prices and observable inputs, respectively. Where such observable data is not readily available, as in the case of level 3 financial instruments, then estimates need to be developed which can involve significant management judgement. The Group has developed its own models to value certain level 2 and level 3 financial instruments, which also involve significant management judgement. We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.	Our audit procedures to assess the fair value of financial instruments included the following: • Assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office and back office reconciliations and model approval for financial instruments; • Assessing the level 1 fair values, on a sample basis, by comparing the fair values applied by the Group with publicly available market data; • Engaging our internal valuation specialists to assist us in performing independent valuations, on a sample basis, of level 2 and level 3 financial instruments and comparing our valuations with the Group's valuations. Our procedures included developing parallel models, obtaining inputs independently and verifying the inputs; • Assessing the appropriate application of fair value adjustment that form an integral part of fair values, inquiring of management about any changes in the fair value adjustment methodologies and assessing the appropriateness of the inputs applied; • Assessing whether the disclosures in the consolidated financial statements, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.

Adjustments and disclosures in relation to transition to the new financial instrument standards	
Refer to the accounting policies in following notes to the Financial Statements: Note III 29: Changes in significant accounting policies and accounting estimates.	
The Key Audit Matter	How the matter was addressed in our audit
The Group has applied CAS 22 - Recognition and Measurement of Financial Instruments (revised) , CAS 23 - Transfer of Financial Assets (revised) and CAS 37 - Presentation of Financial Instruments (revised) ("the new financial instruments standards") since 1 January 2019. The new financial instruments standards revised the requirements for the classification and measurement of financial instruments previously adopted, and requires the loss allowance of expected credit losses to be recognised for relevant financial assets and credit commitments. In addition, it also provides greater flexibility of transaction types in applying hedging accounting. The Group is required to make retrospective adjustments on the classification and measurement, the loss allowance of financial instruments in accordance with the requirements of the new financial instruments standards. We identified the adjustments and disclosures in relation to the transition to the new financial instruments standards as a key audit matter, because of the complexity of the transition process which involved changes in internal controls of the financial reporting process, accounting treatments, and application of new system data; also, management judgment was applied.	Our audit procedures relating to the transition to the new financial instruments standards included the following: · Assessing the key internal controls of the financial reporting process related to the transition to the new financial instruments standards, including internal control processes related to the selection and approval of accounting policy and expected credit loss model methodology, and information system related controls; · Assessing the accuracy of the classification of financial instruments, including obtaining a list of financial instruments classified by management as at 1 January 2019, selecting samples to check the contractual cash flow terms, and understanding and evaluating the business model of the relevant financial instrument portfolio; · Involving our internal valuation specialists in evaluating the valuation method of financial assets and the key parameters used for financial assets that are measured at fair value due to changes in classification and measurement, and selecting samples to independently verify their fair value; · Involving our internal financial risk management specialists in evaluating the expected credit loss model used by management in determining the impairment allowance during transition to the new financial instruments standards, and evaluate the rationality of key assumptions in determining the expected credit loss model; · Obtaining journal entries relating to adjustments made on transition to the new financial instruments standards and comparing it with the list of classification, valuation, expected credit loss of financial instruments as at 1 January 2019, to assess the completeness and accuracy of adjustment journals, and compliance with the prevailing accounting standards; · Selecting samples to recalculate the book value of relevant financial instruments after the transition to the new financial instruments standards, and evaluate the accuracy of beginning book value after the transition to the new financial instruments standards; · Assessing whether the relevant disclosures in relation to transition to the new financial instruments standards at 1 January 2019 were in compliance with the prevailing accounting standards.

IV. Other Information

The Bank's management is responsible for the other information. The other information comprises the information included in 2019 annual report of the Bank, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

V. Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

VI. Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Huazhen LLP

Certified Public Accountants Registered in the People's Republic of China

Jin Naiwen (Engagement Partner)

Zhang Chenchen

China Beijing

24 April 2020

Bank of Shanghai Company Limited
Consolidated balance sheet and balance sheet

Unit: RMB'000

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Assets					
Cash and deposits with central bank	V. 1	140,256,924	145,105,775	139,918,277	144,686,994
Deposits with banks and other financial institutions	V. 2	14,558,543	15,090,430	12,563,747	13,219,871
Placements with banks and other financial institutions	V. 3	170,099,068	115,344,352	169,890,228	113,716,837
Financial assets at fair value through profit or loss	V. 4	N/A	17,874,361	N/A	17,475,237
Derivative financial assets	V. 5	16,443,915	1,237,616	16,416,060	1,208,812
Financial assets held under resale agreements	V. 6	2,267,055	36,368,624	1,027,744	28,404,516
Interests receivable	V. 7	N/A	9,760,277	N/A	9,586,977
Loans and advances to customers	V. 8	941,220,627	818,360,196	923,582,328	799,154,963
Financial investments:					
- Financial assets held for trading	V. 9	318,055,345	N/A	317,085,696	N/A
- Debt investments	V. 10	560,309,534	N/A	558,859,522	N/A
- Other debt investments	V. 11	39,061,464	N/A	31,415,354	N/A
- Investments in other equity instruments	V. 12	515,374	N/A	485,374	N/A
Available-for-sale financial assets	V. 13	N/A	401,779,521	N/A	396,701,596
Held-to-maturity investments	V. 14	N/A	310,643,240	N/A	307,217,029
Investment securities classified as receivables	V. 15	N/A	128,764,840	N/A	140,593,021
Long-term equity investments	V. 16	422,778	402,120	4,275,721	4,253,123
Fixed assets	V. 17	5,566,000	5,779,671	5,491,358	5,700,120
Intangible assets	V. 18	743,640	536,143	730,085	523,689
Deferred tax assets	V. 19	13,537,590	9,690,070	13,437,315	9,605,012
Other assets	V. 20	14,024,086	11,035,163	13,669,428	10,739,821
Total assets		2,237,081,943	2,027,772,399	2,208,848,237	2,002,787,618

The notes on pages 147 to 247 form part of these financial statements.

Bank of Shanghai Company Limited
Consolidated balance sheet and balance sheet (continued)

Unit: RMB'000

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Liabilities and equity					
Liabilities					
Borrowings from central bank		93,181,724	102,942,000	93,111,665	102,832,000
Deposits from banks and other financial institutions	V. 22	394,617,512	368,968,350	395,416,037	369,719,653
Placements from banks and other financial institutions	V. 23	74,165,011	68,336,138	69,328,714	64,716,254
Financial liabilities held for trading	V. 24	400,427	7,168	300,120	-
Derivative financial liabilities	V. 5	16,690,672	829,640	16,669,858	787,094
Financial assets sold under repurchase agreements	V. 25	63,349,665	61,151,258	62,856,131	61,151,258
Deposits from customers	V. 26	1,203,551,552	1,042,489,605	1,188,933,181	1,031,001,362
Employee benefits payable	V. 27	4,384,435	3,700,168	4,222,330	3,547,294
Taxes payable	V. 28	5,516,021	4,293,452	5,415,291	4,239,436
Interests payable	V. 29	N/A	17,383,127	N/A	17,201,728
Provision	V. 30	7,168,161	-	7,125,801	-
Debt securities issued	V. 31	190,712,382	189,375,530	184,881,796	181,358,106
Other liabilities	V. 32	6,117,750	6,527,355	5,758,327	6,306,893
Total liabilities		**2,059,855,312**	**1,866,003,791**	**2,034,019,251**	**1,842,861,078**
Equity					
Share capital	V. 33	14,206,529	10,928,099	14,206,529	10,928,099
Other equity instruments	V. 34	19,957,170	19,957,170	19,957,170	19,957,170
Capital reserve	V. 35	22,052,934	25,331,364	22,051,459	25,329,889
Other comprehensive income	V. 36	3,849,918	627,454	3,452,758	499,252
Surplus reserve	V. 37	36,273,686	30,969,554	36,273,686	30,969,554
General reserve	V. 38	28,434,363	25,804,758	28,330,000	25,630,000
Retained earnings	V. 39	51,934,012	47,658,150	50,557,384	46,612,576
Total equity attributable to equity shareholders of the Bank		176,708,612	161,276,549	174,828,986	159,926,540
Non-controlling interests		518,019	492,059	-	-
Total equity		177,226,631	161,768,608	174,828,986	159,926,540
Total liabilities and equity		**2,237,081,943**	**2,027,772,399**	**2,208,848,237**	**2,002,787,618**

These financial statements were approved by the Board of Directors of the Bank on 24 April 2020.

Chairman: Jin Yu   President: Hu Youlian   Vice President and Chief Finance Officer: Shi Hongmin

The notes on pages 147 to 247 form part of these financial statements.

Bank of Shanghai Company Limited
Consolidated statement of comprehensive income and statement of comprehensive income

Unit: RMB'000

	Note	The Group		The Bank	
		2019	2018	2019	2018
Interest income		78,611,095	75,877,060	77,269,469	74,787,717
Interest expense		(48,290,486)	(45,940,231)	(47,630,696)	(45,412,654)
Net interest income	V. 40	**30,320,609**	**29,936,829**	**29,638,773**	**29,375,063**
Fee and commission income		7,408,355	6,744,495	7,102,401	6,445,227
Fee and commission expense		(841,156)	(764,956)	(824,920)	(752,114)
Net fee and commission income	V. 41	**6,567,199**	**5,979,539**	**6,277,481**	**5,693,113**
Other income		66,764	42,998	31,951	30,790
Net investment gains	V. 42	11,075,168	7,906,133	10,931,763	7,931,944
Net gains from changes in fair value	V. 43	1,363,173	4,652,482	1,300,557	4,702,894
Net foreign exchange gains / (losses)		306,655	(4,718,719)	300,683	(4,855,487)
Other operating incomes		109,209	95,427	111,094	92,700
Losses from asset disposals		(8,485)	(6,867)	(8,485)	(6,867)
Operating income		**49,800,292**	**43,887,822**	**48,583,817**	**42,964,150**
Taxes and surcharges		(470,956)	(446,728)	(468,867)	(444,597)
General and administrative expenses	V. 44	(9,948,556)	(9,006,391)	(9,515,878)	(8,653,168)
Credit losses	V. 45	(17,149,101)	N/A	(16,855,484)	N/A
Impairment losses	V. 46	N/A	(15,331,901)	N/A	(15,248,410)
Other operating expenses		(1,266)	(18,483)	(1,263)	(18,481)
Operating expenses		**(27,569,879)**	**(24,803,503)**	**(26,841,492)**	**(24,364,656)**
Operating profit		**22,230,413**	**19,084,319**	**21,742,325**	**18,599,494**
Add: Non-operating income		240,460	199,037	240,339	198,947
Less: Non-operating expenses		(93,784)	(31,484)	(93,206)	(31,077)
Profit before tax		**22,377,089**	**19,251,872**	**21,889,458**	**18,767,364**
Less: Income tax expenses	V. 47	(2,044,230)	(1,184,037)	(1,948,117)	(1,086,922)
Net profit for the year		**20,332,859**	**18,067,835**	**19,941,341**	**17,680,442**
Net profit classified by continuity of operations:					
Net profit from continuing operations		20,332,859	18,067,835	19,941,341	17,680,442
Net profit from discontinued operations		-	-	-	-
Attributable to:					
Shareholders of the Bank		20,297,588	18,034,040	19,941,341	17,680,442
Non-controlling interests		35,271	33,795	-	-
Other comprehensive income, net of tax	V. 36	**1,409,140**	**1,180,474**	**1,136,750**	**1,288,396**
Other comprehensive income attributable to equity shareholders of the Bank, net of tax		1,409,140	1,198,791	1,136,750	1,288,396
Items that may not be reclassified to profit or loss:					
Changes in fair value of investments in other equity instruments		(73,664)	N/A	(73,664)	N/A
Items that may be reclassified to profit or loss:					
Changes in fair value of other debt investments		112,883	N/A	(66,987)	N/A
Credit losses of other debt investments		1,294,749	N/A	1,277,401	N/A
Changes in fair value of Available-for-sale financial assets		N/A	1,005,250	N/A	1,288,396
Translation differences arising on translation of foreign currency financial statements		75,172	193,541	-	-
Other comprehensive income attributable to non-controlling interests, net of tax		-	(18,317)	-	-
Total comprehensive income for the year		**21,741,999**	**19,248,309**	**21,078,091**	**18,968,838**
Total comprehensive income attributable to:					
Equity shareholders of the Bank		**21,706,728**	**19,232,831**	**21,078,091**	**18,968,838**
Non-controlling interests		**35,271**	**15,478**	-	-
Basic and diluted earnings per share (RMB)		**1.36**	**1.20**		

These financial statements were approved by the Board of Directors of the Bank on 24 April 2020.

Chairman: Jin Yu President: Hu Youlian Vice President and Chief Finance Officer: Shi Hongmin

The notes on pages 147 to 247 form part of these financial statements.

Bank of Shanghai Company Limited
Consolidated cash flow statement and cash flow statement

Unit: RMB'000

	Note	The Group		The Bank	
		2019	2018	2019	2018
Cash flows from operating activities:					
Net decrease in deposits with central bank		-	4,902,485	-	4,900,290
Net decrease in deposits with banks and other financial institutions		1,763,767	13,809,879	1,838,767	13,859,880
Net decrease in financial assets held under resale agreements		11,905,626	-	4,999,500	-
Net increase in borrowings from central bank		-	21,337,000	-	21,332,000
Net increase in deposits from banks and other financial institutions		23,885,684	40,314,089	23,931,078	40,650,327
Net increase in placements from banks and other financial institutions		5,301,961	16,547,675	4,103,241	14,790,460
Net increase in financial liabilities at fair value through profit or loss		398,725	7,147	298,418	-
Net increase in financial assets sold under repurchase agreements		2,189,601	-	1,697,433	-
Net increase in deposits from customers		143,657,209	118,904,281	140,562,800	121,855,038
Interest receipts		60,276,971	51,964,393	58,414,781	50,345,032
Fee and commission receipts		7,931,476	6,938,227	7,607,165	6,638,959
Proceeds from other operating activities		3,944,801	3,961,172	3,566,058	3,918,877
Sub-total of cash inflows		**261,255,821**	**278,686,348**	**247,019,241**	**278,290,863**
Net increase in deposits with central bank		(2,891,079)	-	(2,909,233)	-
Net increase in placements with banks and other financial institutions		(63,621,350)	(21,617,870)	(63,088,813)	(24,224,787)
Net increase in financial asset at fair value through profit or loss		N/A	(6,305,016)	N/A	(6,374,147)
Net increase in financial assets held under resale agreements		-	(10,945,682)	-	(4,999,500)
Net increase in loans and advances to customers		(132,273,512)	(191,314,243)	(133,186,035)	(190,587,015)
Net increase in financial assets held for trading purpose		(5,092)	N/A	(52,129)	N/A
Net decrease in borrowings from central bank		(10,772,000)	-	(10,732,000)	-
Net decrease in financial assets held under repurchase agreements		-	(17,557,293)	-	(17,343,543)
Interest payments		(38,871,189)	(37,327,648)	(38,400,793)	(36,865,251)
Fee and commission payments		(779,394)	(764,956)	(763,158)	(752,114)
Payment to and for employees		(5,387,088)	(4,702,605)	(5,096,655)	(4,479,401)
Payment of various taxes		(8,534,332)	(6,683,602)	(8,376,758)	(6,606,937)
Payment for other operating activities		(6,053,180)	(3,200,427)	(5,710,901)	(3,101,763)
Sub-total of cash outflows		**(269,188,216)**	**(300,419,342)**	**(268,316,475)**	**(295,334,458)**
Net cash outflows from operating activities	V.48(1)	**(7,932,395)**	**(21,732,994)**	**(21,297,234)**	**(17,043,595)**

The notes on pages 147 to 247 form part of these financial statements.

Bank of Shanghai Company Limited
Consolidated cash flow statement and cash flow statement (continued)

Unit: RMB'000

	Note	The Group		The Bank	
		2019	2018	2019	2018
Cash flows from investing activities:					
Proceeds from disposal of investments		525,578,230	568,044,584	524,991,389	562,077,724
Investment returns received		33,558,016	31,775,093	33,361,593	32,220,665
Net proceeds from disposal of long-term assets		7,000	7,458	7,000	7,315
Sub-total of cash inflows		559,143,246	599,827,135	558,359,982	594,305,704
Payment for acquisition of investments		(577,937,546)	(585,489,287)	(564,310,893)	(579,901,227)
Payment for acquisition of long-term assets		(741,746)	(1,432,173)	(731,163)	(1,420,435)
Sub-total of cash outflows		(578,679,292)	(586,921,460)	(565,042,056)	(581,321,662)
Net cash (outflows)/ inflows from investing activities		(19,536,046)	12,905,675	(6,682,074)	12,984,042
Cash flows from financing activities:					
Proceeds from issuance of other debt instruments		834,936,294	882,832,219	832,874,773	870,490,039
Proceeds from subsidiaries' investors		-	1,475	-	-
Sub-total of cash inflows		834,936,294	882,833,694	832,874,773	870,490,039
Repayment of debt securities		(833,592,527)	(861,781,381)	(829,177,536)	(854,893,472)
Interest paid on debt securities		(6,192,116)	(7,488,019)	(6,040,964)	(7,477,945)
Dividends paid		(5,926,265)	(4,922,899)	(5,917,606)	(4,912,513)
Sub-total of cash outflows		(845,710,908)	(874,192,299)	(841,136,106)	(867,283,930)
Net cash (outflows)/ inflows from financing activities		(10,774,614)	8,641,395	(8,261,333)	3,206,109
Effect of foreign exchange rate changes on cash and cash equivalents		150,304	514,763	109,771	334,553
Net (decrease) / increase in cash and cash equivalents	V. 48(2)	(38,092,751)	328,839	(36,130,870)	(518,891)
Add: cash and cash equivalents at the beginning of the year		85,401,765	85,072,926	81,202,279	81,721,170
Cash and cash equivalents at the end of the year	V. 48(3)	47,309,014	85,401,765	45,071,409	81,202,279

These financial statements were approved by the Board of Directors of the Bank on 24 April 2020.

Chairman: Jin Yu President: Hu Youlian Vice President and Chief Finance Officer: Shi Hongmin

The notes on pages 147 to 247 form part of these financial statements.

Bank of Shanghai Company Limited
Consolidated statement of changes in shareholders' equity
for the year ended 31 December 2019

Unit: RMB'000

	Note	2019									
		The Group									
		Attributable to equity shareholders of the Bank									
		Paid-in capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at 31 December 2018		10,928,099	19,957,170	25,331,364	627,454	30,969,554	25,804,758	47,658,150	161,276,549	492,059	161,768,608
Changes in Accounting Policy	III.29	-	-	-	1,813,324	-	-	(2,130,344)	(317,020)	(652)	(317,672)
Balance at 1 Juanury 2019		10,928,099	19,957,170	25,331,364	2,440,778	30,969,554	25,804,758	45,527,806	160,959,529	491,407	161,450,936
Changes in equity for the year											
1.Other comprehensive income		-	-	-	1,409,140	-	-	20,297,588	21,706,728	35,271	21,741,999
2.Appropriation of profits											
- Appropriation for surplus reserve	V. 37	-	-	-	-	5,304,132	-	(5,304,132)	-	-	-
- Appropriation for general reserve	V. 38	-	-	-	-	-	2,629,605	(2,629,605)	-	-	-
- Distributions to shareholders	V. 39	-	-	-	-	-	-	(5,957,645)	(5,957,645)	(8,659)	(5,966,304)
3.Transfers within equity											
- Share capital increased by capital reserve transfer	V. 35	3,278,430	-	(3,278,430)	-	-	-	-	-	-	-
Balance at 31 December 2019		14,206,529	19,957,170	22,052,934	3,849,918	36,273,686	28,434,363	51,934,012	176,708,612	518,019	177,226,631

These financial statements were approved by the Board of Directors of the Bank on 24 April 2020.

Chairman: Jin Yu | President: Hu Youlian | Vice President and Chief Finance Officer: Shi Hongmin

The notes on pages 147 to 247 form part of these financial statements.

Bank of Shanghai Company Limited
Consolidated statement of changes in shareholders' equity (continued)
for the year ended 31 December 2018

Unit: RMB'000

	Note	2018									
		The Group									
		Attributable to equity shareholders of the Bank									
		Paid-in capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at 1 January 2018		7,805,785	19,957,170	28,452,203	(571,337)	26,435,300	25,780,256	39,125,759	146,985,136	456,267	147,441,403
Changes in equity for the year											
1.Other comprehensive income		-	-	-	1,198,791	-	-	18,034,040	19,232,831	15,478	19,248,309
2.Shareholders' contributions											
- Contribution by holders of other equity instruments	V.35	-	-	1,475	-	-	-	-	1,475	30,700	32,175
3.Appropriation of profits											
- Appropriation for surplus reserve	V.37	-	-	-	-	4,534,254	-	(4,534,254)	-	-	-
- Appropriation for general reserve	V.38	-	-	-	-	-	24,502	(24,502)	-	-	-
- Distributions to shareholders	V.39	-	-	-	-	-	-	(4,942,893)	(4,942,893)	(10,386)	(4,953,279)
4. Transfers within equity											
- Share capital increased by capital reserve transfer	V.35	3,122,314	-	(3,122,314)	-	-	-	-	-	-	-
Balance at 31 December 2018		10,928,099	19,957,170	25,331,364	627,454	30,969,554	25,804,758	47,658,150	161,276,549	492,059	161,768,608

These financial statements were approved by the Board of Directors of the Bank on 24 April 2020.

Chairman: Jin Yu President: Hu Youlian Vice President and Chief Finance Officer: Shi Hongmin

The notes on pages 147 to 247 form part of these financial statements.

Bank of Shanghai Company Limited
Statement of changes in shareholders' equity
for the year ended 31 December 2019

Unit: RMB'000

	Note	2019							
		The Bank							
		Paid-in capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
Balance at 31 December 2018		**10,928,099**	**19,957,170**	**25,329,889**	**499,252**	**30,969,554**	**25,630,000**	**46,612,576**	**159,926,540**
Changes in Accounting Policy		-	-	-	1,816,756	-	-	(2,034,756)	(218,000)
Balance at 1 Juanury 2019		10,928,099	19,957,170	25,329,889	2,316,008	30,969,554	25,630,000	44,577,820	159,708,540
Changes in equity for the year									
1.Other comprehensive income		-	-	-	1,136,750	-	-	19,941,341	21,078,091
2.Appropriation of profits									
- Appropriation for surplus reserve	V.37	-	-	-	-	5,304,132	-	(5,304,132)	-
- Appropriation for general reserve	V.38	-	-	-	-	-	2,700,000	(2,700,000)	-
- Distributions to shareholders	V.39	-	-	-	-	-	-	(5,957,645)	(5,957,645)
3. Transfers within equity									
- Share capital increased by capital reserve transfer	V.35	3,278,430	-	(3,278,430)	-	-	-	-	-
Balance at 31 December 2019		**14,206,529**	**19,957,170**	**22,051,459**	**3,452,758**	**36,273,686**	**28,330,000**	**50,557,384**	**174,828,986**

These financial statements were approved by the Board of Directors of the Bank on 24 April 2020.

Chairman: Jin Yu　　President: Hu Youlian　　Vice President and Chief Finance Officer: Shi Hongmin

The notes on pages 147 to 247 form part of these financial statements.

Bank of Shanghai Company Limited
Statement of changes in shareholders' equity (continued)
for the year ended 31 December 2018

Unit: RMB'000

	Note	2018							
		The Bank							
		Paid-in capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
Balance at 1 January 2018		7,805,785	19,957,170	28,452,203	(789,144)	26,435,300	25,630,000	38,409,281	145,900,595
Changes in equity for the year									
1.Other comprehensive income		-	-	-	1,288,396	-	-	17,680,442	18,968,838
2.Appropriation of profits									
- Appropriation for surplus reserve	V.37	-	-	-	-	4,534,254	-	(4,534,254)	-
- Distributions to shareholders	V.39	-	-	-	-	-	-	(4,942,893)	(4,942,893)
3. Transfers within equity									
- Share capital increased by capital reserve transfer	V.35	3,122,314	-	(3,122,314)	-	-	-	-	-
Balance at 31 December 2018		10,928,099	19,957,170	25,329,889	499,252	30,969,554	25,630,000	46,612,576	159,926,540

These financial statements were approved by the Board of Directors of the Bank on 24 April 2020.

Chairman: Jin Yu President: Hu Youlian Vice President and Chief Finance Officer: Shi Hongmin

The notes on pages 147 to 247 form part of these financial statements.

Bank of Shanghai Company Limited Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

I. General information

With the approval from the People's Bank of China (the PBOC), Bank of Shanghai Co., Ltd. (formerly known as Shanghai City United Bank Ltd., hereinafter referred to as the "Bank" or Bank of Shanghai) was incorporated in Shanghai, PRC, on 30 January 1996 as a joint-stock commercial bank. With the approval from PBOC, the Bank changed its name from Shanghai City United Bank Ltd. to Bank of Shanghai Company Limited on July 16, 1998.The Bank obtained a financial business certificate No.B0139H231000001 with the approval from the China Banking Regulatory Committee (the CBRC) and obtained a business license with unified social credit code 91310000132257510M issued by the Shanghai Municipal Administration of Industry and Commerce.

The Bank issued 600.45 million common shares (A share) through initial public offering in Nov 2016 and was listed for transactions on Shanghai Stock Exchange. The stock code of the Bank is 601229.

For the purpose of these financial statements, "Mainland China" refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. "Outside Mainland China" refers to Hong Kong, Macau, Taiwan and other countries and regions.

The principal activities of the Bank and its subsidiaries (hereinafter collectively referred to as the "Group") are the provision of wholesale financial business, retail financial business, investment banking, fund management, asset management and other financial services.

II. Basis of preparation

The financial statements have been prepared on the basis of going concern.

The Group has implemented the Accounting Standards for Business Enterprises No. 22: recognition and measurement of financial instruments and other new financial instrument standards revised by the Ministry of Finance (MOF) of the People's Republic of China (PRC) in 2017 since January 1, 2019 (see Note III.29).

III. Significant accounting policies and accounting estimates of the Bank

1 Statement of compliance

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises issued by MOF of PRC. These financial statements present truly and completely the consolidated financial position and financial position of the Bank as at 31 December 2019, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Bank for the year then ended.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures by Companies Issuing Securities, No. 15: General Requirements for Financial Reports" as revised by the China Securities Regulatory Commission ("CSRC") in 2014.

2 Accounting year

The accounting year of the Group is from 1 January to 31 December.

3 Functional currency

The Bank's functional currency is Renminbi ("RMB") and these financial statements are presented in RMB. Functional currency is determined by the Group on the basis of the currency in which major income and costs are denominated and settled. The Bank translates the financial statements of subsidiaries from their respective functional currencies into the Bank's functional currency (see Note III.6) if the subsidiaries' functional currencies are not the same as that of the Bank.

4 Business combination and consolidated financial statements

(1) Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Where (1) the aggregate of the acquisition-date fair value of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds (2) the acquirer's interest in the acquisition-date fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill (see Note III.13). If (1) is less than (2), the difference is recognised in profit or loss for the current period. The costs of issuing equity or debt securities as a part of the consideration for the acquisition are included in the carrying amounts of these equity or debt securities upon initial recognition. Other acquisition-related costs are expensed when incurred. Any difference between the fair value and the carrying amount of the assets transferred as consideration is recognised in profit or loss. The acquiree's identifiable asset, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Group at their acquisition-date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

For a business combination involving entities not under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its acquisition-date fair value and recognises any resulting difference between the fair value and the carrying amount as investment income or other comprehensive income for the current period. In addition, any amount recognised in other comprehensive income and other changes in the owners' equity under equity accounting in prior reporting periods relating to the previously-held equity interest that may be reclassified to profit or loss are transferred to investment income at the date of acquisition(see Note III.9(2)); Any previously-held equity interest that is designated as equity investment at fair value through other comprehensive income, the other comprehensive income recognized in prior reporting periods in transferred to retained earnings and surplus reserve at the date of acquisition.

(2) Consolidated financial statements

General principles

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Bank and its subsidiaries. Control exists when the investor has all of following: power over the investee; exposure, or rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered. The financial position, financial performance and cash flows of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests are presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to non-controlling shareholders is presented separately in the consolidated income statement below the net profit line item. Total comprehensive income attributable to non-controlling shareholders is presented separately in the consolidated income statement below the total comprehensive income line item.

When the amount of loss for the current period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' share of the opening owners' equity of the subsidiary, the excess is still allocated against the non-controlling interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Bank, the Bank makes necessary adjustments to the financial statements of the subsidiary based on the Bank's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated when preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, unless they represent impairment losses that are recognised in the financial statements.

Subsidiaries acquired through a business combination

Where a subsidiary was acquired during the reporting period, through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements based on the carrying amounts of the assets and liabilities of the subsidiary in the financial statements of the ultimate controlling party as if the combination had occurred at the date that the ultimate controlling party first obtained control.

5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements, and highly liquid short-term investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

6 Foreign currency transactions and foreign currency translation

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates on the dates of the transactions. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are generally recognised in profit or loss, unless they arise from the re-translation of the principal and interest of specific borrowings for the acquisition, and construction or production of qualifying assets. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rate at the date the fair value is determined. The resulting exchange differences are recognised in profit or loss, except for the differences arising from the re-translation of equity investment at fair value through other comprehensive income, which are recognised in other comprehensive income.

In translating the financial statements of a foreign operation, assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rate at the balance sheet date. Equity items, excluding retained earnings and the translation differences in other comprehensive income, are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in other comprehensive income with respect to a foreign operation are transferred to profit or loss in the period when the foreign operation is disposed.

7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(1) 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.

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 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.

(2) 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. On initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income (“FVOCI”), or at fair value through profit or loss (“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;

- 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;

-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. The instrument meets the definition of equity from the perspective of the issuer.

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 measured 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 measured 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 instruments measured 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 recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity instruments measured 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.

(3) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at FVTPL and amortised cost.

Financial liabilities measured at FVTPL

A financial liability is classified as measured 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 measured 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.

For the financial liabilities designated as at FVTPL, the gains and losses arose are accounted for in accordance with the following requirements: (i) the amount of changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be included in other comprehensive income; (ii) other changes in fair value of the financial liabilities are recognised in current profit or loss. If the treatment of the impact of changes in the financial liabilities' own credit risk will create or enlarge the accounting mismatch in profit or loss in accordance with (i), the Group shall recognize the entire gain or loss of the financial liabilities (including the amount of the impact of changes in its own credit risk) in profit and loss. When these liabilities are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to retained earnings.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(4) 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.

(5) Derecognition of financial assets and financial liabilities

Financial assets is derecognized when one of the following conditions is met:

-the Group's contractual rights to cash flows from 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;

-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 assets.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

-the carrying amount of the transferred financial asset;

-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 recognizes directly in other comprehensive income for the part derecognized.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

When the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, but it retains control over the transferred asset. The Group continues to recognize relevant financial assets according to the degree of continuous involvement in the transferred financial assets, and recognizes relevant liabilities accordingly.

Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

The Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

(6) Impairment

The Group recognises loss allowances for ECL on:

-Financial assets measured at amortised cost;

-Debt instruments measured at FVOCI;

-Loan commitments and financial guarantee contracts.

Financial assets measured at fair value, including debt investments or equity securities measured at FVTPL, equity securities designated as at FVOCI and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs 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 Group's method of measuring expected credit losses of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the end of the reporting period (or a shorter period if the expected life of the instrument is less than 12 months).

The Group classifies financial instruments into three stages and makes provisions for expected credit losses accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

The three risk stages are defined as follows:

Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month expected credit losses is recognised as loss allowance.

Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime expected credit losses is recognised as loss allowance. Refer to Note XIII.1 credit risk for the description of how the Group determines when a significant increase in credit risk has occurred.

Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime expected credit losses is recognised as loss allowance. Refer to Note XIII.1credit risk for the definition of creditimpaired financial assets.

Presentation of allowance for ECL

ECLs are remeasured at the end of each reporting period 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 financial instruments measured at amortised cost with a corresponding adjustment to their carrying amount through a loss allowance account; for debt instruments that are measured at FVOCI, the loss allowance is recognised in other comprehensive income. The Group recognises loss allowances for loan commitments and financial guarantee contracts through other liabilities (allowance for impairment losses on off-balance-sheet assest).

Write-off

The book value 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 order to comply 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.

(7) Modification of loan contracts

In some cases (such as renegotiating loans), the Group may renegotiate or otherwise modify the financial assets contracts. The Group would assess whether or not the new contractual terms are substantially different to the original terms. If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset under the revised terms. If the renegotiation or modification does not result in derecognition, but lead to changes in contractual cash flows, the Group assesses whether a significant increase in credit risk has occurred, based on comparing the risk of a default occurring under the revised terms as at the end of the reporting period with that as at the date of initial recognition under original terms.

(8) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity. Consideration and transaction costs paid by the Bank for repurchasing self-issued equity instruments are deducted from shareholders' equity.

(9) Preference shares

At initial recognition, the Group classifies the preference shares issued 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.

Preference shares 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 preference shares and perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

8 Precious metals

Precious metals represent gold and silver. Precious metals that are acquired by the Group are initially recognised at fair value when they are obtained or repurchased and subsequently carried at fair value, with changes in fair value recognised in profit or loss.

9 Long-term equity investments

(1) Investment cost of long-term equity investments

For a long-term equity investment acquired through a business combination not involving enterprises under common control, the initial cost comprises the aggregate of the fair value of assets transferred, liabilities incurred or assumed, and equity securities issued by the Bank, in exchange for control of the acquiree.

A long-term equity investment acquired other than through a business combination is initially recognised at the amount of cash paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

(2) Subsequent measurement of long-term equity investment

Investments in subsidiaries

In the Bank's separate financial statements, long-term equity investments in subsidiaries are accounted for using the cost method for subsequent measurement unless the investment is classified as held for sale. Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Bank recognises its share of the cash dividends or profit distributions declared by the investee as investment income for the current period.

The investments in subsidiaries are stated in the balance sheet at cost less accumulated impairment losses. For the impairment of the investments in subsidiaries, refer to Note III.14.

In the Group's consolidated financial statements, subsidiaries are accounted for in accordance with the policies described in Note III.4.

Investment in joint ventures and associates

A joint venture is an arrangement whereby the Group and other parties have joint control and rights to the net assets of the arrangement.

An associate is an enterprise over which the Group has significant influence.

An investment in a joint venture or an associate is accounted for using the equity method for subsequent measurement.

The accounting treatments under the equity method adopted by the Group are as follows:

- Where the initial cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is recognised in profit or loss.

- After the acquisition of the investment, the Group recognises its share of the investee's profit or loss and other comprehensive income as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by the amount attributable to the Group. Changes in the Group's share of the investee's owners' equity, other than those arising from the investee's net profit or loss, other comprehensive income or profit distribution (referred to as "other changes in owners' equity"), is recognised directly in the Group's equity, and the carrying amount of the investment is adjusted accordingly.

- In calculating its share of the investee's net profits or losses, other comprehensive income and other changes in owners' equity, the Group recognises investment income and other comprehensive income after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair value of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses resulting from transactions between the Group and its associates or joint ventures are eliminated in the same way as unrealised gains but only to the extent that there is no impairment.

- The Group discontinues recognising its share of further losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the joint venture or associate is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. If the joint venture or associate subsequently reports net profits, the Group resumes recognising its share of those profits only after its share of the profits has fully covered the share of losses not recognised.

For the impairment of the investments in joint ventures and associates, refer to Note III.14.

(3) Criteria for determining the existence of joint control or significant influence over an investee

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (activities with significant impact on the returns of the arrangement) require the unanimous consent of the parties sharing control.

The following factors are usually considered when assessing whether the Group can exercise joint control over an investee:

- Whether no single participant party is in a position to control the investee's related activities unilaterally;

- Whether strategic decisions relating to the investee's related activities require the unanimous consent of all participant parties that sharing of control.

Significant influence is the power to participate in the financial and operating policy decisions of an investee but does not have control or joint control over those policies.

10 Fixed assets and construction in progress

Fixed assets represent tangible assets held by the Group for administrative purposes with useful lives over one accounting year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note III.14). Construction in progress is stated in the balance sheet at cost less impairment loss (see Note III.14).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use.

Where the parts of an item of fixed assets have different useful lives or provide benefits to the Group in different patterns, thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets 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 fixed assets are recognised in profit or loss as incurred.

The carrying amount of a fixed asset is derecognised:

- When the fixed asset is for disposal; or

- When no future economic benefit is expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of fixed assets 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.

The cost of fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Types of assets	Estimated useful lives	Estimated residual values	Depreciation rates
Premises	20 - 30 years	5%	3.17% ~ 4.75%
Electronic equipment	10 years	5%	9.5%
Furniture and fixtures	3 - 5 years	5%	19% ~ 31.67%
Motor vehicles	5 years	5%	19%

Useful lives, estimated residual values and depreciation methods are reviewed at least each year-end.

The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to working condition for its intended use. Construction in progress is transferred to fixed assets when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

11 Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note III.14). For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised using the straight-line method over its estimated useful life.

The respective amortisation periods for intangible assets are as follows:

Types of assets	Amortisation period (years)
Land use right	20-50 years
Software	3-5 years
Other intangible assets	10-20 years

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. At the end of the balance sheet, the Group does not have any intangible assets with indefinite useful lives.

12 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. Repossessed assets is initially recognised at fair value and subsequently carried at lower of the carrying amount and the recoverable amount. If the recoverable amount of an repossessed asset is less than its carrying amount, the carrying amount of the repossessed asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss. Repossessed assets are not depreciated nor amortised. The impairment losses of initial measurement and subsequent re-measurement are charged to profit or loss.

Impairment losses on repossessed assets are accounted for in accordance with the accounting policies as set out in Note III.14.

13 Goodwill

The initial cost of goodwill represents the excess of cost of acquisition over the acquirer's interest in the fair value of the identifiable net assets of the acquiree under a business combination not involving enterprises under common control.

Goodwill is not amortised and is stated in the balance sheet at cost less accumulated impairment losses (see Note III.14). On disposal of an asset group or a set of asset groups, any attributable goodwill is written off and included in the calculation of the profit or loss on disposal.

14 Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets and construction in progress
- intangible assets
- long-term equity investments
- repossessed assets
- goodwill
- long-term deferred expenses and etc.

If any indication exists, the recoverable amount of the asset is estimated. In addition, the Group estimates [the recoverable amounts of intangible assets not ready for use at least annually and] the recoverable amounts of goodwill [and intangible assets with indefinite useful lives] at each year-end, irrespective of whether there is any indication of impairment. Goodwill is allocated to each asset group or set of asset groups, which is expected to benefit from the synergies of the combination for the purpose of impairment testing.

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value (Note III.15) less costs to sell and its present value of expected future cash flows. An asset group is composed of assets directly related to cash-generation and 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.

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 an appropriate pre-tax discount rate.

An impairment loss is recognised in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

15 Fair value measurement

Unless otherwise specified, the Group determines fair value measurement as below:

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.

When measuring fair value, the Group takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date, and uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

16 Employee benefits

(1) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or accured at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(2) Post-employment benefits - defined contribution plans

The defined contribution plans in which the Group participated include:

- Pursuant to the relevant laws and regulations of the People's Republic of China, the Group participated in a defined contribution basic pension insurance and unemployment insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance and unemployment insurance plans based on the applicable benchmarks and rates stipulated by the government;

- Pursuant to "Trial Measures for Enterprise Annuity" (Order of the Ministry of Labor and Social Security of the People's Republic of China No. 20), the Group's employees participated in the enterprise annuity plan that was approved by the Board of Directors and submitted to the labor and social security authority. The Group makes contributions calculated in accordance with the annuity plan scheme.

- Eligible employees in the Bank's overseas subsidiaries participated in local contribution schemes. The Bank's overseas subsidiaries make contributions for the employees in accordance with local laws and regulations.

Defined contributions are recognised as part of the cost of assets or charged to profit or loss as the related services are rendered by the employees.

(3) Termination benefits

When the Group terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

-When the Group cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;

- When the Group has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

(4) Other long-term employee benefits

The Group recognises the deferred award provided for employees and the deferred payment of salaries to key management based on business performance during the periods of service provided by employees and key management, as liabilities and as part of the cost of assets or charged to profit or loss.

17 Government grants

Government grants are non-reciprocal transfers of monetary or non-monetary assets from the government to the Group except for capital contributions from the government in the capacity as an investor in the Group. A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value.

Government grants related to assets are grants whose primary condition is that the Group qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants related to income are grants other than those related to assets. A grant that compensates the Group for expenses or losses to be incurred in the future is recognised as deferred income, and included in other income or non-operating income in the periods in which the expenses or losses are recognised. Or included in other income or non-operating income directly.

18 Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset only if the Group has a legally enforceable right to set them off and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and deferred tax 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, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or deductible loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, deferred tax is measured based on the tax consequences that would follow from the expected manner of recovery or settlement of the carrying amounts of the assets and liabilities, using tax rates enacted at the reporting date that are expected to be applied in the period when the asset is recovered or the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and deferred tax liabilities are offset if all of the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and current tax assets;

- different taxable entities which intend either to settle the current tax liabilities and current tax assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered.

19 Operating leases

(1) Operating lease charges

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are expensed as incurred.

(2) Assets leased out under operating leases

Fixed assets leased out under operating leases are depreciated in accordance with the Group's depreciation policies described in Note III.10. Impairment losses are recognised in accordance with the accounting policies described in Note III.14. Income derived from operating leases is recognised in profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent rentals are recognised as income as they are earned.

20 Provisions

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. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows. 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 there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome;

- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

21 Financial guarantees

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 terms of a debt instrument. The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and bank acceptance. The Group initially measures all financial contracts at fair value, in other liabilities, being the premium received. This amount is recognised ratably over the period of the contract as fee and commission income. Subsequently, the liabilities are measured at the higher of the amount of the loss allowance determined in accordance with impairment policies of financial instruments (refer to Note III.7 (6)) and the amount initially recognised less the cumulative amount of income. Any increase in the liability relating to a financial guarantee is taken to the statement of profit or loss.

22 Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

23 Income recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group's ordinary activities when the inflows result in increase in shareholders' equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following conditions are met:

(1) Interest income

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortised cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not expected credit losses.

Interest income is calculated by applying the effective interest rate to the book value of financial assets and is included in interest income, except for:

- For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost;

- Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their book value.

(2) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognised as fee and commission income upon its expiry.

(3) Dividend income

Dividend income from unlisted equity investment is recognised in profit or loss on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

(4) Other income

Other income is recognised on an accrual basis.

24 Expenses

(1) 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.

(2) Other expenses

Other expenses are recognised on an accrual basis.

25 Dividend distribution

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the end of the Relevant Periods, are not recognised as a liability at the end of the Relevant Periods but disclosed in the notes to the financial statements separately.

26 Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties.

In addition to the related parties stated above, the Group determines related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC, the Administrative Measures on Affiliated Transactions between Commercial Banks and their Insiders or Shareholders issued by the CBRC and the Provisional Measures on Administration of Equities of Commercial Banks issued by the CBRC.

27 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have the similar economic characteristics and are same or similar in respect of the nature of each segment's products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of the actual transaction prices for such transactions for segment reporting. Segment accounting policies are consistent with those for the consolidated financial statements.

28 Significant accounting estimates and judgments

The preparation of the financial statements requires management to make estimates, judgments and assumptions based on historical experience and other factors, including reasonable expectations of future events, which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results in the future may differ from these judgments, estimates and assumptions. The group continuously evaluates these judgments, estimates and assumptions, and revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(1) Significant accounting estimates

Except for accounting estimates relating to depreciation and amortisation of assets such as fixed assets and intangible assets (see Notes III.10 and 11) and provision for impairment of various types of assets (see Notes V.1, 2, 3, 6, 8, 10, 11, 13, 14, 15, 16, 17, 18 and 20). Other significant accounting estimates are as follows:

(i) Note V.19: Recognition of deferred tax assets;

(ii) Note XV: Fair value measurements of financial instruments and investment properties.

(2) Significant accounting judgements

Significant judgements made by the Group in the application of accounting policies are as follows:

(i) Note V.34: Preference shares classified as financial liabilities or equity instruments; and

(ii) Note VI: Significant judgements and assumptions in determining control, joint control or significant influence over other entity.

29 Changes in significant accounting policies and accounting estimates

In 2019, the group implemented the following accounting standards for business enterprises and the revision of statement format issued by the MOF in recent years:

- CAS Bulletin No.22 - Recognition and Measurement of Financial Instruments (Revised)
- CAS Bulletin No.23 - Transfer of Financial Assets (Revised)
- CAS Bulletin No.24 - Hedge Accounting (Revised)
- CAS Bulletin No.37 - Presentation of Financial Instruments (Revised) (above 4 collectively the "new financial instrument standards")
- Notice on Revision of the 2018 Illustrative Financial Statements (Caikuai [2018] No.36) (New financial statement format of financial enterprise)
- CAS Bulletin No.7 - Exchange of Non Monetary Assets (Revised)("CAS 7(2019)")
- CAS Bulletin No.12 - Debt Restructuring (Revised) ("CAS 12(2019)")

(1) New financial instrument standards and new financial statement format of financial enterprises

The new financial instrument standards revised "CAS Bulletin No.22 - Recognition and Measurement of Financial Instruments", "CAS Bulletin No.23 - Transfer of Financial Assets", "CAS Bulletin No.24 - Hedge Accounting", which issued by the MOF in 2006 and "CAS Bulletin No.37 - Presentation of Financial Instruments" revised by the MOF in 2014 (collectively the "original financial instrument standards").

The new financial instrument standards divide financial assets into three basic categories: measured at (1) amortised cost, (2) FVOCI and (3) FVTPL. The classification for financial assets is determined based on the Group's business model for managing the financial instruments and the contractual cash flow characteristics of the assets. The new financial instruments standards cancel the three classification categories stipulated in the original financial instruments standards: held-to-maturity investments, loans and Investment securities classified as receivables, and available-for-sale financial assets. According to the new financial instrument standards, embedded derivatives are no longer separated from the main contract of financial assets, but the relevant provisions on the classification of financial assets are generally applied to hybrid financial instruments.

The new impairment model in the new financial instrument standards replaces the "incurred loss" model in the original financial instrument standards with an "expected credit losses ("ECL")" model. The ECL model requires continuous assessment of the credit risk of financial assets. Therefore, under the new financial instrument standards, the Group's credit loss is recognized earlier than the original financial instrument standard.

The new financial instrument standards revise the subsequent measurement of financial liabilities designated at fair value through profit or loss, financial guarantee liabilities, and loan commitments. In addition, the new financial instruments standards have not substantially changed the accounting policies for financial liabilities.

The Group adjusted the classification and measurement (including impairment) of financial instruments that were not derecognised on the implementation date of the new financial instruments standards (January 1, 2019) on a retrospective basis in accordance with the reconciliations requirements under the new financial instrument standards. The Group did not adjust the comparative figures of consolidated financial statements, but any difference between original book value and new book value at the implementation date of financial instruments should be included in the retained earnings or other comprehensive income at the beginning of the year.

According to the principle of importance and in combination with the actual situation, the Group adjusted the relevant financial statement items in accordance with the new financial statement format of financial enterprises.

The following table lists the impact of the new financial instrument standards and the relevant requirements of the new financial enterprise financial statement format on the Group's related assets and liabilities on January 1, 2019:

	31 December 2018	Reclassification	Remeasurment	1 January 2019
Assets				
Cash and deposits with central bank	145,105,775	60,274	(4)	145,166,045
Deposits with banks and other financial institutions	15,090,430	59,378	(39,264)	15,110,544
Placements with banks and other financial institutions	115,344,352	626,023	(329,227)	115,641,148
Financial assets at fair value through profit or loss	17,874,361	(17,874,361)	-	N/A
Financial assets held under resale agreements	36,368,624	180,463	(871,224)	35,677,863
Interests receivable	9,760,277	(9,760,277)	-	N/A
Loans and advances to customers	818,360,196	2,871,808	1,637,757	822,869,761
Financial investment:				
- Financial assets held for trading	N/A	351,389,625	497,239	351,886,864
- Debt investments	N/A	466,131,468	1,765,278	467,896,746
- Other debt investments	N/A	46,711,070	403,657	47,114,727
- Investments in other equity instruments	N/A	612,153	1,440	613,593
Available-for-sale financial assets	401,779,521	(401,779,521)	-	N/A
Held-to-maturity investments	310,643,240	(310,643,240)	-	N/A
Investment securities classified as receivables	128,764,840	(128,764,840)	-	N/A
Deferred tax assets	9,690,070	-	95,425	9,785,495
Other assets	11,035,163	179,977	(2,535)	11,212,605
Sub-total	**2,019,816,849**	**-**	**3,158,542**	**2,022,975,391**
Liabilities				
Borrowings from central bank	102,942,000	1,480,501	-	104,422,501
Deposits from banks and other financial institutions	368,968,350	2,373,661	-	371,342,011
Placements from banks and other financial institutions	68,336,138	412,362	-	68,748,500
Financial assets sold under repurchase agreements	61,151,258	35,052	-	61,186,310
Deposits from customers	1,042,489,605	12,619,625	-	1,055,109,230
Interests payable	17,383,127	(17,383,127)	-	N/A
Provisions	-	30,713	3,476,214	3,506,927
Debt securities issued	189,375,530	461,926	-	189,837,456
Other liabilities	6,527,355	(30,713)	-	6,496,642
Sub-total	**1,857,173,363**	**-**	**3,476,214**	**1,860,649,577**
Total impact on shareholders' equity at the beginning of the period		**-**	**(317,672)**	

The following table adjusts the Group's book value of financial assets measured in accordance with the original standards to the book value measured in accordance with the new standards issued on January 1, 2019:

	Note	31 December 2018	Reclassification	Remeasurment	1 January 2019
Financial assets measured at amortised cost					
Cash and deposits with central bank					
Balance under original standards		145,105,775			
Add: from interests receivable	i		60,274		
Remeasurment: provision for expected credit losses				(4)	
Balance under new standards					145,166,045
Deposits with banks and other financial institutions					
Balance under original standards		15,090,430			
Add: from interests receivable	i		59,378		
Remeasurment: provision for expected credit losses				(39,264)	
Balance under new standards					15,110,544
Placements with banks and other financial institutions					
Balance under original standards		115,344,352			
Add: from interests receivable	i		626,023		
Remeasurment: provision for expected credit losses				(329,227)	
Balance under new standards					115,641,148
Financial assets held under resale agreements					
Balance under original standards		36,368,624			
Add: from interests receivable	i		180,463		
Remeasurment: provision for expected credit losses				(871,224)	
Balance under new standards					35,677,863
Interests receivable	i				
Balance under original standards		9,760,277			
Less: to cash and deposits with central bank			(60,274)		
Less: to deposits with banks and other financial institutions			(59,378)		
Less: to placements with banks and other financial institutions			(626,023)		
Less: to financial assets held under resale agreements			(180,463)		
Less: to loans and advances to customers			(2,871,808)		
Less: to financial assets held for trading			(275,179)		
Less: to debt investments			(4,858,256)		
Less: to other debt investments			(641,943)		
Less: to other assets			(186,953)		
Balance under new standards					N/A
Loans and advances to customers					
Balance under original standards		818,360,196			
Add: from interests receivable	i		2,871,808		
Less: to loans and advances to customers measured at FVOCI	ii		(38,472,595)		
Less: to loans and advances to customers measured at FVTPL	iii		(783,147)		
Remeasurment: reversal of impairment allowance under original standards				898,651	
Balance under new standards					782,874,913

	Note	31 December 2018	Reclassification	Remeasurment	1 January 2019
Debt investments					
Balance under original standards		N/A			
Add: from interests receivable	iv		25,109,386		
Add: from held-to-maturity investments	v		307,445,012		
Add: from investment securities classified as receivables	v		128,718,814		
Add: from interests receivable	i		4,858,256		
Remeasurment: reversal of impairment allowance under original standards				1,765,278	
Balance under new standards					467,896,746
Held-to-maturity investments					
Balance under original standards		310,643,240			
Less: to financial assets held for trading	vi		(3,198,228)		
Less: to debt investments	v		(307,445,012)		
Balance under new standards					N/A
Investment securities classified as receivables					
Balance under original standards		128,764,840			
Less: to financial assets held for trading	vi		(46,026)		
Less: to debt investments	v		(128,718,814)		
Balance under new standards					N/A
Other assets					
Balance under original standards		11,035,163			
Add: from interests receivable	i		186,953		
Less: to financial assets held for trading	vi		(6,976)		
Remeasurment: reversal of impairment allowance under original standards				(2,535)	
Balance under new standards					11,212,605
Sub-total financial assets measured at amortised cost		1,590,472,897	(18,314,708)	1,421,675	1,573,579,864
Financial assets measured at FVTPL					
Financial assets measured at fair value through profit or loss					
Balance under original standards		17,874,361			
Less: Financial assets held for trading	vii		(17,874,361)		
Balance under new standards					N/A
Financial assets held for trading					
Balance under original standards		N/A			
Add: from financial assets measured at fair value through profit or loss	vii		17,874,361		
Add: from available-for-sale financial assets	vi		329,988,855		
Add: from held-to-maturity investments	vi		3,198,228		
Add: from investment securities classified as receivables	vi		46,026		
Add: from other assets	vi		6,976		
Add: from interests receivable	i		275,179		
Remeasurment: reversal of impairment allowance under original standards				1,501,479	
Remeasurment: from amortised cost to fair value				(1,004,240)	
Balance under new standards					351,886,864

	Note	31 December 2018	Reclassification	Remeasurment	1 January 2019
Loans and advances to customers					
Balance under original standards		-			
Add: from loans and advances to customers measured at amortised cost	iii		783,147		
Remeasurment: reversal of impairment allowance under original standards				35,574	
Remeasurment: from amortised cost to fair value				3,525	
Balance under new standards					822,246
Sub-total financial assets measured at FVTPL		17,874,361	334,298,411	536,338	352,709,110
Financial assets measured at FVOCI					
Loans and advances to customers					
Balance under original standards		-			
Add: from from loans and advances to customers measured at amortised cost	ii		38,472,595		
Remeasurment: reversal of impairment allowance under original standards				580,318	
Remeasurment: from amortised cost to fair value				119,689	
Balance under new standards					39,172,602
Other debt investments					
Balance under original standards		N/A			
Add: from available-for-sale financial assets	viii		46,069,127		
Add: from interests receivable	i		641,943		
Remeasurment: reversal of impairment allowance under original standards				403,657	
Balance under new standards					47,114,727
Other equity investments					
Balance under original standards		N/A			
Add: from available-for-sale financial assets	ix		612,153		
Remeasurment: reversal of impairment allowance under original standards				1,440	
Balance under new standards					613,593
Available-for-sale financial assets					
Balance under original standards		401,779,521			
Less: to financial assets held for trading	vi		(329,988,855)		
Less: to debt investments	iv		(25,109,386)		
Less: to other debt investments	viii		(46,069,127)		
Less: to investments in other equity instruments	ix		(612,153)		
Balance under new standards					N/A
Sub-total financial assets measured at FVOCI		401,779,521	(315,983,703)	1,105,104	86,900,922
Deferred tax assets					
Balance under original standards		9,690,070			
Remeasurment				95,425	
Balance under new standards					9,785,495
Total		2,019,816,849	-	3,158,542	2,022,975,391

(i) According to the requirements of the new financial statement format for financial enterprises, the Group reclassifies the financial instruments' interests based on the actual interest rate method into the book balance of the corresponding financial instrument. Interests related to financial instruments that have been due but not yet received have been reclassified to other assets.

(ii) Certain loans and advances to customers held by the Group were held within a business model in which objective at the date of initial application was both collecting contractual cash flows and selling 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 measured at FVOCI under the new financial instruments standards. And according to the requirements of the new financial statement format for financial enterprises, these assets were reclassified as loans and advances measured at FVOCI.

(iii) Certain loans and advances to customers held by the Group, their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. These assets were classified as financial assets measured at FVTPL under the new financial instruments standards. And according to the requirements of the new financial statement format for financial enterprises, these assets were reclassified as loans and advances measured at FVTPL.

(iv) Certain debt instruments originally classified as available-for-sale financial assets were held within a business model whose objective at the date of initial application was to collect contractual cash flows. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as debt investments under the new financial instruments standards. And according to the requirements of the new financial statement format for financial enterprises, these assets were reclassified as debt instrument. The fair value of these instruments as at 31 December 2019 was RMB 20,962 million. Assuming that these financial assets were not reclassified upon transition to the new financial instruments standards, the gain arising from changes in their fair value during the year that would have been recognized in other comprehensive income was not significant.

(v) According to the requirements of the new financial statement format for financial enterprises, the accounts of held-to-maturity investments and investment securities classified as receivables are no longer used. Certain debt instruments originally classified as held-to-maturity investments and investment securities classified as receivables have been reclassified to debt instruments and there are no changes in their measurement.

(vi) Certain financial instruments originally classified as held-to-maturity investments, investment securities classified as receiv-ables, available-for-sale financial assets and other assets, their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. These assets were classified as financial assets measured at FVTPL under the new financial instruments standards. And according to the requirements of the new financial statement format for financial enterprises, these assets were reclassified as trading assets.

(vii) According to the requirements of the new financial statement format for financial enterprises, the account of financial assets measured at FVTPL is no longer used. Instruments originally classified as financial assets measured at FVTPL have been reclassified to trading assets and there is no change in its measurement.

Under the original financial instruments standards, certain debt instruments held by the Group were designated as financial assets measured at FVTPL, which no longer met the criteria under the new financial instruments standards for designation as financial assets measured at FVTPL. Therefore, the Group revoked its previous designation of these financial assets and their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. These assets were classified as financial assets measured at FVTPL under the new financial instruments standards. And according to the requirements of the new financial statement format for financial enterprises, these assets were reclassified as trading assets.

(viii) According to the requirements of the new financial statement format for financial enterprises, the account of available-for-sale financial assets is no longer used. Certain debt instruments originally classified as available-for-sale financial assets have been reclassified to other debt investments and there is no change in its measurement.

(ix) On the implementation date of the new financial instruments standards, the Group chose to irrevocably designate certain non-tradable equity investments that were originally classified as available-for-sale financial assets as financial investments measured at fair value through other comprehensive income. And according to the requirements of the new financial statement format for financial enterprises, these assets were reclassified as other equity investments.

The table below adjusts the impairment allowance measured on December 31, 2018 based on the incurred loss model of original financial instruments standards to the impairment allowance and provisions measured on January 1, 2019 based on the expected credit loss model of the new financial instruments standards:

	Impairment allowance / Estimated liabilities recognized under the original financial instruments standards as at 31 December 2018	Reclassification	Remeasurment	Impairment allowance / provisions recognized under the new financial instruments standards as at 1 January 2019
Financial assets measured at amortised cost				
Cash and deposits with central bank	-	-	4	4
Deposits with banks and other financial institutions	-	-	39,264	39,264
Placements with banks and other financial institutions	36,223	-	329,227	365,450
Financial assets held under resale agreements	230,418	-	871,224	1,101,642
Loans and advances to customers	32,335,459	(615,892)	(898,651)	30,820,916
Debt investments	N/A	6,043,563	(1,765,278)	4,278,285
Held-to-maturity investments	827,419	(827,419)	-	N/A
Investment securities classified as receivables	6,010,530	(6,010,530)	-	N/A
Other assets	134,810	(98,334)	2,535	39,011
Sub-total	39,574,859	(1,508,612)	(1,421,675)	36,644,572
Financial assets measured at FVOCI				
Loans and advances to customers	-	580,318	1,044,970	1,625,288
Available-for-sale financial assets	1,013,856	(1,013,856)	-	N/A
Other debt investments	N/A	403,657	(44,694)	358,963
Investments in other equity instruments	N/A	1,440	(1,440)	N/A
Sub-total	1,013,856	(28,441)	998,836	1,984,251
Provisions	-	30,713	3,476,214	3,506,927
Total	40,588,715	(1,506,340)	3,053,375	42,135,750

(2) CAS 7 (2019)

CAS 7 (2019) further clarifies the scope of the standard, specifies the timing for recognition of assets received and derecognition of assets given up, and the accounting treatment for cases in which the timing of recognition and derecognition are inconsistent. The standard modifies the principle of measurement for multiple assets received or given up simultaneously in exchanges of non-monetary assets measured at fair value. It also requires the disclosure of whether exchanges of non-monetary assets have commercial substance and the reasons why they do or do not have commercial substance.

The effective date of CAS 7 (2019) is 10 June 2019. Exchanges of non-monetary assets that occurred between 1 January 2019 and the effective date shall be adjusted according to CAS 7 (2019). Retrospective adjustment is not required for exchanges of non-monetary assets prior to 1 January 2019. The adoption of CAS 7 (2019) has no material effect on the financial position and financial performance of the Group.

(3) CAS 12 (2019)

CAS 12 (2019) modifies the definition of debt restructuring to specify the scope of this standard, as well as the application of relevant financial instruments standards with respect to the recognition, measurement and presentation of financial instruments involved in debt restructuring. For debt restructuring in which a debt is settled by the transfer of assets, CAS 12 (2019) modifies the principle of measurement for initial recognition of non-financial assets received by the creditor, and gains or losses of the debtor from debt restructuring are recognised without distinguishing whether they are gains or losses from asset transfer or debt restructuring. For debt restructuring in which a debt is settled by the issuance of equity instruments to the creditor, CAS 12 revises the principle of measurement for initial recognition of its share of equity by the creditor, and provides more guidance on the principle of measurement for initial recognition of equity instruments by the debtor.

The effective date of CAS 12 (2019) is 17 June 2019. Debt restructuring that occurred between 1 January 2019 and the effective date shall be adjusted according to CAS 12 (2019). Retrospective adjustment is not required for debt restructuring prior to 1 January 2019. The adoption of CAS 12 (2019) has no material effect on the financial position and financial performance of the Group.

IV. Taxation

The Bank and its domestic subsidiaries' main applicable taxes and tax rates are as follows:

Tax type	Tax basis and Tax rate
Value-added tax (VAT)	Output VAT is calculated on 6% of the product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period. Part of VAT is calculated on 3% ~ 17% of the product sales and taxable services revenue.
City maintenance and construction tax	1%-7% of VAT paid
Education surcharge	4%-5% of and VAT paid
Income tax	25% of taxable income

Shanghai Minhang BoS Rural Bank Co., Ltd. ("Minhang Rural"), Jiangsu Jiangning BoS Rural Bank Co., Ltd. ("Jiangning Rural"), Chongzhou BoS Rural Bank Co., Ltd. ("Chongzhou Rural") and Zhejiang Quzhou Qujiang BoS Rural Bank Co., Ltd. ("Qujiang Rural"), as subsidiary of the Bank, is calculated on taxable services revenue's 3% for the VAT according to Simple tax method.

Overseas subsidiaries pay income tax according to local regulations.

V. Notes to the consolidated financial statements

1 Cash and deposits with central bank

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Cash on hand		1,713,428	2,127,633	1,700,995	2,114,180
Deposits with domestic central bank					
- Statutory deposit reserves	(i)	120,206,218	118,433,114	119,971,813	118,180,554
- Surplus deposit reserves	(ii)	16,887,314	24,257,734	16,799,828	24,126,432
- Fiscal deposits		976,193	172,986	976,192	172,986
- Foreign exchange risk reserves	(iii)	407,610	92,842	407,610	92,842
Deposits with overseas central banks	(iv)	4,217	21,466		
Sub-total		138,481,552	142,978,142	138,155,443	142,572,814
Accrued interest		61,945	N/A	61,839	N/A
Total				139,918,277	144,686,994
Less: Provision for impairment losses	V. 21	(1)	-		
Total		140,256,924	145,105,775		

(i) The Group places statutory deposit reserves with the PBOC in accordance with relevant regulations.

(ii) The surplus deposit reserves are maintained with the PBOC for clearing purposes.

(iii) The foreign exchange risk reserves placed the contracted value of foreign exchange valet forward sales in accordance with the related notice issued by the PBOC.

(iv) Deposits with overseas central banks are funds maintained with the overseas central banks by subsidiaries overseas for clearing purposes.

2 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deposits in mainland China					
- Banks		6,179,310	6,846,596	4,942,726	6,186,608
- Other financial institutions		3,616,643	4,304,178	3,597,016	4,302,018
Deposits outside mainland China					
- Banks		4,813,121	3,939,656	4,073,916	2,731,245
Total		14,609,074	15,090,430	12,613,658	13,219,871
Accrued interest		10,994	N/A	7,410	N/A
Less: Provision for impairment losses	V. 21	(61,525)	-	(57,321)	-
Carrying amount		14,558,543	15,090,430	12,563,747	13,219,871

3 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Placements in mainland China					
- Banks		2,998,234	1,375,900	2,998,234	1,375,900
- Other financial institutions		161,685,725	110,694,805	161,685,788	110,584,950
Placements outside mainland China					
- Banks		4,184,219	2,277,945	3,970,217	756,745
- Other financial institutions		1,044,794	1,031,925	1,044,794	1,031,925
Total		169,912,972	115,380,575	169,699,033	113,749,520
Accrued interest		666,173	N/A	670,499	N/A
Less: Provision for impairment losses	V. 21	(480,077)	(36,223)	(479,304)	(32,683)
Carrying amount		170,099,068	115,344,352	169,890,228	113,716,837

At 31 December 2019, the Group's placements with its own non-principal-guaranteed wealth management products amounted to RMB7,958 million (RMB14,951 million as at 31 December 2018). In 2019, the Group's maximum exposure of placements with its own non-principal-guaranteed wealth management products amounted to RMB13,959 million (2018: RMB22,317 million).

4 Financial assets at fair value through profit or loss

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Debt instruments held for trading					
- Government		N/A	687,875	N/A	671,015
- Policy banks		N/A	3,356,693	N/A	3,356,693
- Banks and other financial institutions		N/A	750,023	N/A	750,023
- Other entities	(i)	N/A	12,697,506	N/A	12,697,506
Sub-total	(ii)	N/A	17,492,097		
Equity instruments held for trading					
- Stocks	(iii)	N/A	173,748		
- Fund	(iv)	N/A	167,838		
- Other		N/A	20,675		
Sub-total		N/A	362,261		
Debt instruments designated at fair value through profit or loss					
- Other institutions	(ii)	N/A	20,003		
Total		N/A	17,874,361	N/A	17,475,237

(i) Debt instruments held for trading issued by other entities mainly represented bonds issued by various domestic enterprises.

(ii) The above debt instruments held for trading represented bonds and bills traded in China domestic interbank bond market. The above debt financial assets designated at fair value through profit or loss-other institutions mainly represented unlisted RMB bills issued by other foreign institutions.

(iii) The above stocks held for trading mainly represented listed stocks issued in mainland China.

(iv) The above fund held for trading represented unlisted fund issued in mainland China.

5 Derivative financial assets and liabilities

	31 December 2019					
	The Group			The Bank		
	Notional amount	Fair Value		Notional amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Currency derivatives						
- Currency forwards and swaps	1,705,945,693	11,161,738	(11,247,424)	1,700,139,963	11,141,211	(11,229,945)
- Currency options	25,848,318	187,450	(220,984)	25,848,318	187,450	(220,984)
- Currency interest rate swaps	8,960,969	102,753	(60,645)	8,960,969	102,753	(60,645)
- Currency futures	87,066	-	(1,105)			
Interest rate derivatives	1,368,699,074	4,697,769	(4,868,645)	1,367,418,424	4,690,441	(4,866,415)
Commodity derivatives	10,340,421	294,205	(289,609)	10,340,421	294,205	(289,609)
Other derivatives	299,850	-	(2,260)	299,850	-	(2,260)
Total	3,120,181,391	16,443,915	(16,690,672)	3,113,007,945	16,416,060	(16,669,858)

	31 December 2018					
	The Group			The Bank		
	Notional amount	Fair Value		Notional amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Currency derivatives						
- Currency forwards and swaps	380,638,626	759,957	(597,828)	372,480,140	744,938	(560,386)
- Currency options	6,548,729	81,495	(96,448)	6,548,729	81,495	(96,448)
- Currency interest rate swaps	13,058,072	364,103	(87,166)	13,058,072	364,103	(87,166)
Interest rate derivatives	1,262,722,187	32,024	(41,906)	1,261,667,308	18,239	(36,802)
Commodity derivatives	5,949,105	-	(5,935)	5,949,105	-	(5,935)
Other derivatives	62,600	37	(357)	62,600	37	(357)
Total	**1,668,979,319**	**1,237,616**	**(829,640)**	**1,659,765,954**	**1,208,812**	**(787,094)**

The notional amount indicates the contractual value of the derivative transactions outstanding at the balance sheet date. It does not represent the amounts at risk.

6 Financial assets held under resale agreements

(1) Analysed by type of collateral

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Securities					
- Government bonds		-	4,455,000	-	4,455,000
- Bonds issued by banks and other financial institutions		-	3,205,800	-	3,205,800
- Bonds issued by other institutions		-	5,999,400	-	5,999,400
Sub-total		**-**	**13,660,200**	**-**	**13,660,200**
Bank certificate of deposit		1,030,030	14,744,316	1,030,030	14,744,316
Equity		1,288,400	8,194,526		
Total		**2,318,430**	**36,599,042**	**1,030,030**	**28,404,516**
Accrued interest		130	N/A	130	N/A
Less: Provision for impairment losses	V. 21	(51,505)	(230,418)	(2,416)	-
Carrying amount		**2,267,055**	**36,368,624**	**1,027,744**	**28,404,516**

(2) Analysed by type and location of counterparty

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
In mainland China					
- Banks		-	4,951,000	-	4,951,000
- Other financial institutions		2,318,430	31,648,042	1,030,030	23,453,516
Total		2,318,430	36,599,042	1,030,030	28,404,516
Accrued interest		130	N/A	130	N/A
Less: Provision for impairment losses	V. 21	(51,505)	(230,418)	(2,416)	-
Carrying Amount		2,267,055	36,368,624	1,027,744	28,404,516

7 Interests receivable

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Debt instruments		N/A	5,801,284	N/A	5,748,488
Loans and advances to customers		N/A	3,032,855	N/A	2,936,431
Placements with banks and other financial institutions		N/A	626,023	N/A	626,505
Financial assets held under resale agreements		N/A	180,463	N/A	161,646
Deposits with central bank, banks and other financial institutions		N/A	119,652	N/A	113,907
Total		N/A	9,760,277	N/A	9,586,977

From January 1, 2019, according to the requirements of the new financial statement format for financial enterprises, the Group reclassifies the financial instruments' interests based on the actual interest rate method into the book balance of the corresponding financial instrument, and the "interest receivable" item is no longer listed separately. Interests related to financial instruments that have been due but not yet received have been reclassified to other assets. The group does not restate the comparative figures.

8 Loans and advances to customers

(1) Analysed by measurement methods

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Loans and advances to customers					
- Measured at amortised cost	(i)	905,473,512	850,695,655	887,607,358	831,125,984
- Measured at FVOCI	(ii)	66,716,053	N/A	66,716,053	N/A
- Measured at FVTPL	(iii)	315,113	N/A	315,113	N/A
Total		972,504,678	850,695,655	954,638,524	831,125,984
Accrued interest		3,706,345	N/A	3,593,855	N/A
Less: Provision for impairment losses - Loans and advances to customers measured at amortised cost	V. 21	(34,990,396)	(32,335,459)	(34,650,051)	(31,971,021)
Carrying amount		941,220,627	818,360,196	923,582,328	799,154,963

(i) Loans and advances to customers measured at amortised cost

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Corporate loans and advances	583,483,017	534,269,554	566,582,863	515,703,898
Personal loans and advances				
- Personal consumption loans	175,058,957	157,475,662	174,706,383	157,059,630
- Property mortgages	94,450,383	72,768,999	94,403,029	72,735,842
- Credit cards	33,522,102	30,953,025	33,522,102	30,953,025
- Personal business loans	18,747,397	15,623,530	18,198,919	15,087,765
Sub-total	321,778,839	276,821,216	320,830,433	275,836,262
Discounted bills	211,656	39,604,885	194,062	39,585,824
Loans and advances to customers measured at amortised cost	905,473,512	850,695,655	887,607,358	831,125,984

(ii) Loans and advances to customers measured at FVOCI

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Discounted bills	66,716,053	N/A	66,716,053	N/A

(iii) Loans and advances to customers measured at FVTPL

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Corporate loans and advances	315,113	N/A	315,113	N/A

On the balance sheet date, part of the above loans and advances are used as collateral for repurchase agreement transactions, as detailed in note X. 1

(2) Analysed by type of collateral

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Unsecured loans	297,944,940	294,628,602	294,134,054	292,648,265
Guaranteed loans	183,535,200	159,186,326	173,071,317	149,699,190
Loans secured by tangible assets	310,308,416	275,575,575	308,960,131	274,543,166
Loans secured by monetary assets	180,716,122	121,305,152	178,473,022	114,235,363
Gross balance	972,504,678	850,695,655	954,638,524	831,125,984
Accrued interest	3,706,345	N/A	3,593,855	N/A
Less: Provision for impairment losses	(34,990,396)	(32,335,459)	(34,650,051)	(31,971,021)
Carrying amount	941,220,627	818,360,196	923,582,328	799,154,963

(3) Analysed by industrial sector

	31 December 2019				31 December 2018			
	The Group		The Bank		The Group		The Bank	
	Amount	%	Amount	%	Amount	%	Amount	%
Real estate	154,391,365	15.89	150,228,390	15.73	128,229,633	15.07	124,123,624	14.93
Leasing and commercial services	139,439,435	14.34	137,790,273	14.43	122,709,591	14.42	121,372,242	14.60
Manufacturing	75,886,752	7.80	74,251,163	7.78	65,573,181	7.71	65,258,177	7.85
Public utilities	54,856,988	5.64	54,605,640	5.72	48,972,712	5.76	48,597,685	5.85
Wholesale and retail	51,370,308	5.28	50,267,318	5.27	51,152,970	6.01	49,940,265	6.01
Financial services	21,951,036	2.26	15,524,414	1.63	23,517,516	2.76	14,788,720	1.78
Construction	21,500,402	2.21	21,216,929	2.22	25,368,172	2.98	25,099,966	3.02
Communication, software and IT services	17,736,281	1.82	17,685,727	1.85	16,646,874	1.96	16,119,544	1.94
Culture, sports and entertainment	12,398,525	1.27	12,302,676	1.29	11,225,369	1.32	11,128,465	1.34
Transportation, storage and postal services	10,104,445	1.04	9,718,745	1.02	15,249,265	1.79	14,774,939	1.78
Education and research	7,039,088	0.72	6,455,416	0.68	5,557,595	0.65	4,801,151	0.58
Mining	5,163,653	0.53	5,163,653	0.54	6,904,682	0.81	6,904,682	0.83
Agriculture and farming	5,112,044	0.53	5,062,594	0.53	6,248,852	0.73	6,099,405	0.73
Others	6,847,808	0.70	6,625,038	0.69	6,913,142	0.83	6,695,033	0.81
Sub-total of corporate loans and advances	**583,798,130**	**60.03**	**566,897,976**	**59.38**	**534,269,554**	**62.80**	**515,703,898**	**62.05**
Personal loans and advances	**321,778,839**	**33.09**	**320,830,433**	**33.61**	**276,821,216**	**32.54**	**275,836,262**	**33.19**
Discounted bills	**66,927,709**	**6.88**	**66,910,115**	**7.01**	**39,604,885**	**4.66**	**39,585,824**	**4.76**
Gross balance	**972,504,678**	**100.00**	**954,638,524**	**100.00**	**850,695,655**	**100.00**	**831,125,984**	**100.00**
Accrued interest	3,706,345		3,593,855		N/A		N/A	
Less: Provision for impairment losses	(34,990,396)		(34,650,051)		(32,335,459)		(31,971,021)	
Carrying amount	**941,220,627**		**923,582,328**		**818,360,196**		**799,154,963**	

(4) Analysed by geographical sector

	31 December 2019		31 December 2018	
	The Group	The Bank	The Group	The Bank
Shanghai	462,774,073	460,918,890	423,022,897	421,442,898
Yangtze River Delta (excluding Shanghai)	204,635,016	204,206,171	158,915,211	158,510,797
Pearl River Delta (including Hong Kong)	173,808,324	158,519,430	143,944,535	126,686,014
Bohai Rim	100,241,154	100,241,154	97,434,522	97,434,522
Central and Western	31,046,111	30,752,879	27,378,490	27,051,753
Gross balance	**972,504,678**	**954,638,524**	**850,695,655**	**831,125,984**
Accrued interest	3,706,345	3,593,855	N/A	N/A
Less: Provision for impairment losses	(34,990,396)	(34,650,051)	(32,335,459)	(31,971,021)
Carrying amount	**941,220,627**	**923,582,328**	**818,360,196**	**799,154,963**

(5) Overdue loans and advances (excluding accrued interest) analysed by type of collateral and overdue period

	The Group				
	31 December 2019				
	Overdue within three months (inclusive)	Overdue between three months and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Unsecured loans	2,901,496	2,366,420	287,960	-	5,555,876
Guaranteed loans	364,977	1,104,068	3,640,189	36,547	5,145,781
Loans secured by tangible assets	2,276,997	915,880	715,615	21,425	3,929,917
Loans secured by monetary assets	988,696	73,008	330,803	-	1,392,507
Total	6,532,166	4,459,376	4,974,567	57,972	16,024,081

	The Group				
	31 December 2018				
	Overdue within three months (inclusive)	Overdue between three months and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Unsecured loans	1,841,648	1,166,120	59,786	-	3,067,554
Guaranteed loans	2,481,888	2,765,696	581,503	14,804	5,843,891
Loans secured by tangible assets	1,648,220	2,155,983	524,149	105,845	4,434,197
Loans secured by monetary assets	701,323	164,588	78,490	58,480	1,002,881
Total	6,673,079	6,252,387	1,243,928	179,129	14,348,523

	The Bank				
	31 December 2019				
	Overdue within three months (inclusive)	Overdue between three months and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Unsecured loans	2,900,811	2,365,662	287,950	-	5,554,423
Guaranteed loans	336,190	1,102,785	3,628,905	36,547	5,104,427
Loans secured by tangible assets	2,276,607	903,505	714,039	21,425	3,915,576
Loans secured by monetary assets	988,696	73,008	330,803	-	1,392,507
Total	6,502,304	4,444,960	4,961,697	57,972	15,966,933

	The Bank				
	31 December 2018				
	Overdue within three months (inclusive)	Overdue between three months and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Unsecured loans	1,841,548	1,166,120	59,786	-	3,067,454
Guaranteed loans	2,481,022	2,654,046	465,272	14,804	5,615,144
Loans secured by tangible assets	1,631,332	2,153,349	524,149	105,845	4,414,675
Loans secured by monetary assets	701,323	164,588	78,490	58,480	1,002,881
Total	6,655,225	6,138,103	1,127,697	179,129	14,100,154

Overdue loans represent loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more.

(6) Movements of provision for impairment losses

(i) Loans and advances to customers measured at amortised cost

	The Group			
	2019			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	16,451,326	6,259,579	8,110,011	30,820,916
Transfer:				
- to stage 1	1,687,362	(1,653,156)	(34,206)	-
- to stage 2	(1,397,236)	1,400,818	(3,582)	-
- to stage 3	(75,709)	(1,261,344)	1,337,053	-
(Reverse)/charge	(1,194,695)	3,863,402	8,876,209	11,544,916
Write-offs	-	-	(8,686,368)	(8,686,368)
Recoveries	-	-	1,403,439	1,403,439
Other movements	7,345	1,143	(100,995)	(92,507)
As at 31 December	15,478,393	8,610,442	10,901,561	34,990,396

	The Group			
	2018			
	Provision for impaired loans and advances(Note (a))			
	Provision for impairment losses which is collectively assessed	collective assessement	individual assessement	Total
As at 1 January	15,633,213	907,440	4,289,640	20,830,293
Charge for the year	10,256,674	1,685,026	5,015,025	16,956,725
Release during the year	(1,354)	-	(1,653,170)	(1,654,524)
Recoveries	-	96,525	442,675	539,200
Unwinding of discount	-	-	(117,926)	(117,926)
Write-offs	-	(1,259,096)	(2,977,890)	(4,236,986)
Others	11,831	233	6,613	18,677
As at 31 December	25,900,364	1,430,128	5,004,967	32,335,459

	The Bank			
	2019			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	16,231,770	6,234,410	7,950,693	30,416,873
Transfer:				
- to stage 1	1,687,362	(1,653,156)	(34,206)	-
- to stage 2	(1,390,038)	1,393,620	(3,582)	-
- to stage 3	(68,247)	(1,260,420)	1,328,667	-
(Reverse)/charge	(1,278,074)	3,875,754	8,925,878	11,523,558
Write-offs	-	-	(8,579,434)	(8,579,434)
Recoveries	-	-	1,382,861	1,382,861
Other movements	1,315	743	(95,865)	(93,807)
As at 31 December	15,184,088	8,590,951	10,875,012	34,650,051

	The Bank			
	2018			
	Provision for impaired loans and advances(Note (a))			
	Provision for impairment losses which is collectively assessed	collective assessement	individual assessement	Total
As at 1 January	15,432,751	885,850	4,028,006	20,346,607
Charge for the year	10,256,674	1,673,308	4,861,758	16,791,740
Release during the year	-	-	(1,556,709)	(1,556,709)
Recoveries	-	93,496	414,634	508,130
Unwinding of discount	-	-	(114,688)	(114,688)
Write-offs	-	(1,232,580)	(2,776,711)	(4,009,291)
Others	4,204	233	795	5,232
As at 31 December	25,693,629	1,420,307	4,857,085	31,971,021

(a) Impaired loans and advances to customers include loans and advances for which objective evidence of impairment exists. These loans and advances include loans and advances for which objective evidence of impairment has been identified:

- individually, or

- collectively; that is the portfolios of homogeneous loans and advances.

(ii) Loans and advances to customers measured at FVOCI

	The Group and The Bank			
	2019			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	1,600,105	25,183	-	1,625,288
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	(677)	677	-	-
- to stage 3	(381)	-	381	-
Charge/(reverse)	1,320,168	(17,730)	21,618	1,324,056
As at 31 December	2,919,215	8,130	21,999	2,949,344

(7) Rescheduled loans and advances to customers (excluding accrued interest)

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Rescheduled loans and advances to customers	880,323	1,161,948	849,112	1,150,886

9 Financial assets held for trading

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial investment held for trading purposes					
Debt instruments					
- Government		1,921,254	N/A	1,578,866	N/A
- Policy banks		532,900	N/A	532,900	N/A
- Banks and other financial institutions		2,518,285	N/A	1,280,818	N/A
- Other institutions	(i)	13,523,940	N/A	13,286,370	N/A
Sub-total of debt instruments	(ii)	18,496,379	N/A	16,678,954	N/A
Equity instruments					
- Fund	(iii)	228,061	N/A	-	N/A
- Stocks	(iv)	276,247	N/A	-	N/A
- Others		28,730	N/A	-	N/A
Sub-total of equity instruments		533,038	N/A	-	N/A
Sub-total		19,029,417	N/A	16,678,954	N/A
Financial investments measured at fair value through profit or loss (standard requirements)					
Debt instruments					
- Banks and other financial institutions	(ii)	86,739,345	N/A	86,739,345	N/A
Equity instruments					
- Fund	(iii)	211,504,160	N/A	213,227,252	N/A
- Stocks	(iv)	74,705	N/A	74,705	N/A
- Others		707,718	N/A	365,440	N/A
Sub-total of equity instruments		212,286,583	N/A	213,667,397	N/A
Sub-total		299,025,928	N/A	300,406,742	N/A
Total	(v)	318,055,345	N/A	317,085,696	N/A

(i) Debt instruments issued by other institutions are mainly corporate bonds.

(ii) The debt instruments are mainly invested in bonds traded in China's onshore interbank bond market and wealth management products issued by commercial banks.

(iii) The above funds mainly invest in money funds and bond funds issued in China.

(iv) The stocks investments are mainly in listed stocks issued in China.

(v) As at the balance sheet date, part of financial investments measured at FVTPL was pledged as guaranty (See Note X.1). No other investments were subject to material restrictions on the realisation.

10 Debt investments

(1) Analysed by type of issuer and geographical location

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Issued in mainland China:					
- Government		363,548,059	N/A	363,548,059	N/A
- Policy banks		18,326,420	N/A	18,249,419	N/A
- Banks and other financial institutions	(i)	134,180,688	N/A	135,400,051	N/A
- Other institutions	(ii)	32,862,508	N/A	32,688,333	N/A
Issued outside mainland China					
- Banks and other financial institutions	(i)	5,206,143	N/A	4,578,072	N/A
- Other institutions	(ii)	5,306,029	N/A	3,550,119	N/A
Total		**559,429,847**	**N/A**	**558,014,053**	**N/A**
Accrued interest		6,436,587	N/A	6,403,136	N/A
Less: Provision for impairment losses	V. 21	(5,556,900)	N/A	(5,557,667)	N/A
Carrying amount	(iii)	**560,309,534**	**N/A**	**558,859,522**	**N/A**

(i) Mainly represent bonds issued by banks and other financial institutions inside and outside mainland China, asset-backed securities, income certificates and asset management plans set up by asset management companies and trust companies.

The group invests directly or through a structured entity in relevant debt instruments and obtains fixed or identifiable income, in which the underlying assets invested through a structured entity include interbank deposits and credit assets. For information on the group's interest in the relevant structured entity through direct holding investments, see Note VI.

(ii) Bonds issued by other institutions in and outside China mainly respresent bonds issued by all kinds of enterprise companies.

(iii) As at the balance sheet date, part of debt investments was pledged as guaranty (See Note X.1). No other investments were subject to material restrictions on the realisation.

(2) Movements of provision for impairment losses

	The Group				The Bank			
	2019				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 1 January	1,404,342	1,068,284	1,805,659	4,278,285	1,441,302	1,975,888	1,805,659	5,222,849
Transfer:								
- to stage 1	68,759	(68,759)	-	-	68,759	(68,759)	-	-
- to stage 2	(111,240)	111,240	-	-	(111,240)	111,240	-	-
- to stage 3	(137)	(307,102)	307,239	-	(137)	(307,102)	307,239	-
Charge/(reverse)	637,984	24,634	732,886	1,395,504	552,702	(833,881)	732,886	451,707
Write-offs	-	-	(116,889)	(116,889)	-	-	(116,889)	(116,889)
As at 31 December	**1,999,708**	**828,297**	**2,728,895**	**5,556,900**	**1,951,386**	**877,386**	**2,728,895**	**5,557,667**

11 Other debt investments

(1) Analysed by type of issuer and geographical location

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Issued in mainland China					
- Government		2,140,974	N/A	2,140,974	N/A
- Policy banks		4,750,588	N/A	4,750,588	N/A
- Banks and other financial institutions	(i)	15,393,595	N/A	15,124,382	N/A
- Other institutions	(ii)	3,974,367	N/A	3,121,746	N/A
Issued outside mainland China					
- Government		1,060,697	N/A		
- Banks and other financial institutions	(i)	5,895,837	N/A	3,802,356	N/A
- Other institutions	(ii)	5,417,164	N/A	2,089,587	N/A
Sub-total		38,633,222	N/A	31,029,633	N/A
Accrued interest		428,242	N/A	385,721	N/A
Total	(iii)	39,061,464	N/A	31,415,354	N/A

(i) Mainly represent bonds issued by banks and other financial institutions.

(ii) Bonds issued by other institutions in and outside China mainly respresent bonds issued by all kinds of enterprise companies.

(iii) Part of other debt investments was pledged as guaranty (see Note X.1). No other investments were subject to material restrictions on the realization.

(2) Fair value analysis of other debt investments

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Cost	39,000,824	N/A	31,417,562	N/A
Fair value	39,061,464	N/A	31,415,354	N/A
Fair value change included in OCI	60,640	N/A	(2,208)	N/A

(3) Movements of provision for impairment losses

	The Group				The Bank			
	2019				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 1 January	97,449	-	261,514	358,963	86,123	-	261,514	347,637
Transfer:								
- to stage 1	-	-	-	-	-	-	-	-
- to stage 2	-	-	-	-	-	-	-	-
- to stage 3	-	-	-	-	-	-	-	-
Reverse	(14,533)	-	(14,775)	(29,308)	(31,880)	-	(14,775)	(46,655)
As at 31 December	82,916	-	246,739	329,655	54,243	-	246,739	300,982

12 Investments in other equity instruments

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Unlisted equity investments	515,374	N/A	485,374	N/A

Fair value analysis of Investments in other equity instruments

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Cost	382,371	N/A	352,371	N/A
Fair value	515,374	N/A	485,374	N/A
Fair value change included in OCI	133,003	N/A	133,003	N/A

13 Available-for-sale financial assets

(1) Available-for-sale financial assets

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Debt instruments measured by fair value (analysed by issuer)					
In mainland China					
- Government		N/A	2,032,270	N/A	1,911,153
- Policy banks		N/A	8,534,150	N/A	8,331,522
- Banks and other financial institutions		N/A	194,737,547	N/A	193,730,396
- Other institutions	(i)	N/A	7,435,033	N/A	6,980,129
Outside mainland China					
- Government		N/A	1,151,972	N/A	200,005
- Banks and other financial institutions		N/A	6,623,126	N/A	4,688,611
- Other institutions	(i)	N/A	2,075,831	N/A	333,448
Sub-total	(ii) / (iii)	N/A	222,589,929	N/A	216,175,264
Equity instruments (analysed by measurement)					
In mainland China					
- Measured by fair value	(iii) / (iv)	N/A	167,532,016	N/A	167,250,059
- Measured by cost	(v)	N/A	99,588	N/A	64,327
Outside mainland China					
- Measured by fair value	(iii)	N/A	11,557,988	N/A	13,211,946
Sub-total		N/A	179,189,592	N/A	180,526,332
Total		N/A	401,779,521	N/A	396,701,596

(2) Fair value analysis of available-for-sale financial assets

	Note	31 December 2018					
		The Group			The Bank		
		Available-for-sale equity instruments	Available-for-sale debt instruments	Total	Available-for-sale equity instruments	Available-for-sale debt instruments	Total
Cost of equity instruments / debt instruments		178,558,550	223,723,010	402,281,560	179,905,182	217,080,274	396,985,456
Fair Value		179,090,004	222,589,929	401,679,933	180,462,005	216,175,264	396,637,269
Fair value change included in OCI		532,894	(120,665)	412,229	558,263	107,406	665,669
Provision for impairment	(iii)	(1,440)	(1,012,416)	(1,013,856)	(1,440)	(1,012,416)	(1,013,856)

(i) Debt instruments issued by other institutions inside and outside mainland China mainly represent debt securities issued by all kinds of enterprises and companies.

(ii) At the balance sheet date, some of the debt instruments were pledged as collateral for debt securities lending transactions (see Note X.1 for details). No other investments were subject to material restriction on realisation.

(iii) When impairment of an available-for-sale investment measured at fair value occurs, any impairment loss recognised is recorded in the carrying amount directly.

(iv) Equity instruments measured based on fair value inside China mainly represent money fund and bond fund investment.

(v) Part of available-for-sale unlisted equity instruments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any accumulated impairment losses.

14 Held-to-maturity investments

Analysed by type of issuer and geographical location

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Issued in mainland China					
- Government		N/A	262,851,272	N/A	262,851,272
- Banks and other financial institutions		N/A	28,884,645	N/A	27,995,504
- Other institutions	(i)	N/A	10,064,524	N/A	10,043,749
Issued outside mainland China					
- Commercial banks and other financial institutions		N/A	4,896,361	N/A	4,185,043
- Other institutions	(i)	N/A	4,773,857	N/A	2,968,880
Total		N/A	311,470,659	N/A	308,044,448
Less: Provision for impairment losses	V. 21	N/A	(827,419)	N/A	(827,419)
Carrying amount	(ii)	N/A	310,643,240	N/A	307,217,029

(i) Debt securities issued by other institutions inside and outside mainland China mainly represent bonds issued by all kinds of enterprises companies.

(ii) As at the balance sheet date, part of the held-to-maturity investments was pledged as guaranty (See Note X.1). No other investments were subject to material restrictions on the realisation.

15 Investment securities classified as receivables

Analysed by type of issuer and geographical location

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Issued in mainland China					
- Government	(i)	N/A	7,735,978	N/A	7,735,978
- Commercial Banks	(ii) / (iv)	N/A	928,877		
- Other non-bank financial institutions	(iii) / (iv)	N/A	125,810,515	N/A	138,909,745
- Other institutions	(v)	N/A	300,000	N/A	300,000
Sub-total		N/A	134,775,370	N/A	146,945,723
Less: Provision for impairment losses	V. 21	N/A	(6,010,530)	N/A	(6,352,702)
Carrying amount	(vi)	N/A	128,764,840	N/A	140,593,021

(i) Mainly represent certificated bonds and local government bonds issued by Chinese government.

(ii) Mainly represent wealth management products issued by commercial banks.

(iii) Mainly represent the asset management plans established by asset management companies, trust companies and securities companies and the structured notes issued by securities companies.

Some banks and other financial institutions offer credit enhancement to some of the above investments. As at 31 December 2018, RMB1 billion of beneficial right transfer contracts have been signed to forward sell with banks and other financial institutions in mainland China. The fair value of the above sale agreement is insignificant.

(iv) The Group invests in debt instruments directly or through structured entities to get a fixed or determinable income. The underlying assets of these structured entities include interbank deposits, bonds and credit assets. For the information of the interests in structure entities, see Note VI.

(v) Securities issued by other institutions in China are mainly debt instruments issued by all kinds of enterprises companies.

(vi) As at 31 December 2018, part of the investment classified as receivables was pledged as guaranty (see Note X.1). No other investments were subject to material restrictions on the realization.

16 Long-term equity investments

	Note	The Group	
		31 December 2019	31 December 2018
Investments in associates	(i)	422,778	402,120

	Note	The Bank	
		31 December 2019	31 December 2018
Investments in associate	(ii)	404,997	382,399
Investments in subsidiaries	(iii)	3,870,724	3,870,724
Total		4,275,721	4,253,123

(i) Changes in the Group's long-term equity investments in associate are as follows:

	2019					
Investee	Balance at 1 January	Increase in capital	Decrease in capital	Investment gains/ (losses) recognised under equity method	Balance at 31 December	Balance of provision for impairment losses at 31 December
Shanghai Shangkang Yinchuang Investment Management co., Ltd. ("Shangkang Yinchuang")	19,521	-	-	(1,940)	17,581	-
Shanghai ShangCheng Consumer Finance Corporation Limited ("ShangCheng Finance")	382,399	-	-	22,598	404,997	-
Shangyin Yihao Equity Investment Fund Partnership Company("Shangyin Yihao")	100	-	(100)	-	-	-
Shangyin Zhonghe Hengtai Investment Partnership Company("Zhonghe Hengtai")	100	-	-	-	100	-
Shangyin Zhongtuo Lianjian Investment Partnership Company("Zhongtuo Lianjian")	-	100	-	-	100	-
Total	402,120	100	(100)	20,658	422,778	-

	2018					
Investee	Balance at 1 January	Increase in capital	Decrease in capital	Investment gains recognised under equity method	Balance at 31 December	Balance of provision for impairment losses at 31 December
Shangkang Yinchuang	19,016	-	-	505	19,521	-
ShangCheng Finance	375,115	-	-	7,284	382,399	-
Shenzhen Yushi Supply Chain Science & Technology Service Co. ,Ltd.	1,000	-	(1,000)	-	-	-
Shangyin Yihao	-	100	-	-	100	-
Zhonghe Hengtai	-	100	-	-	100	-
Total	395,131	200	(1,000)	7,789	402,120	-

(ii) Changes in the Bank's long-term equity investments in associates are as follows:

	2019				
Investee	Balance at 1 January	Increase in capital	Investment imcome recognised under equity method	Balance at 31 December	Balance of provision for impairment losses at 31 December
ShangCheng Finance	382,399	-	22,598	404,997	-

	2018				
Investee	Balance at 1 January	Increase in capital	Investment loss recognised under equity method	Balance at 31 December	Balance of provision for impairment losses at 31 December
ShangCheng Finance	375,115	-	7,284	382,399	-

See Note VI.2 for details of the Group's and the Bank's associates.

(iii) Changes in the Bank's long-term equity investments in subsidiaries are as follows:

	2019			
Investee	Balance at 1 January	Additional investment	Balance at 31 December	Balance of provision for impairment losses at 31 December
Bank of Shanghai (Hong Kong) Limited ("Hongkong subsidiary")	3,279,424	-	3,279,424	-
BOSC Asset Management Co., Ltd. ("Asset Management")	270,000	-	270,000	-
Minhang Rural	102,000	-	102,000	-
Jiangning Rural	102,000	-	102,000	-
Chongzhou Rural	66,300	-	66,300	-
Qujiang Rural	51,000	-	51,000	-
Total	3,870,724	-	3,870,724	-

	2018			
Investee	Balance at 1 January	Additional investment	Balance at 31 December	Balance of provision for impairment losses at 31 December
Hong Kong Subsidiary	3,279,424	-	3,279,424	-
Asset Management	270,000	-	270,000	-
Minhang Rural	102,000	-	102,000	-
Jiangning Rural	102,000	-	102,000	-
Chongzhou Rural	66,300	-	66,300	-
Qujiang Rural	51,000	-	51,000	-
Total	3,870,724	-	3,870,724	-

See Note VI.1 for details of the Bank's subsidiaries.

17 Fixed assets

	The Group					
	Premises	Construction in progress	Electronic equipment	Furniture and fixtures	Motor vehicles	Total
Cost						
As at 1 January 2019	7,336,663	70,993	56,761	2,338,114	107,719	9,910,250
Additions	11,473	15,022	1,270	207,785	5,004	240,554
Disposals	(9,999)	(13,853)	(149)	(177,742)	(10,229)	(211,972)
As at 31 December 2019	7,338,137	72,162	57,882	2,368,157	102,494	9,938,832
Accumulated depreciation						
As at 1 January 2019	(2,219,519)	-	(51,140)	(1,771,289)	(88,631)	(4,130,579)
Charge for the year	(238,496)	-	(3,157)	(177,656)	(5,578)	(424,887)
Disposals	4,261	-	109	168,546	9,718	182,634
As at 31 December 2019	(2,453,754)	-	(54,188)	(1,780,399)	(84,491)	(4,372,832)
Carrying amount						
As at 1 January 2019	5,117,144	70,993	5,621	566,825	19,088	5,779,671
As at 31 December 2019	4,884,383	72,162	3,694	587,758	18,003	5,566,000

	The Group					
	Premises	Construction in progress	Electronic equipment	Furniture and fixtures	Motor vehicles	Total
Cost						
As at 1 January 2018	5,703,999	99,960	55,412	2,234,401	105,915	8,199,687
Additions	1,632,664	44,799	1,988	251,162	3,783	1,934,396
Disposals	-	(73,766)	(639)	(147,449)	(1,979)	(223,833)
As at 31 December 2018	7,336,663	70,993	56,761	2,338,114	107,719	9,910,250
Accumulated depreciation						
As at 1 January 2018	(1,956,763)	-	(46,785)	(1,717,048)	(84,553)	(3,805,149)
Charge for the year	(262,756)	-	(4,839)	(194,138)	(5,958)	(467,691)
Disposals	-	-	484	139,897	1,880	142,261
As at 31 December 2018	(2,219,519)	-	(51,140)	(1,771,289)	(88,631)	(4,130,579)
Carrying amount						
As at 1 January 2018	3,747,236	99,960	8,627	517,353	21,362	4,394,538
As at 31 December 2018	5,117,144	70,993	5,621	566,825	19,088	5,779,671

As at 31 December 2019 the carrying amount of the Group's premises for operating leases was RMB 494 million (31 December 2018: RMB 491 million).

As at 31 December 2019, there was no significant amounts of temporarily idle fixed assets (31 December 2018: Nil).

As at 31 December 2019, title deeds were not yet finalised for the Group's premises with a carrying amount of RMB 103 million (31 December 2018: RMB 110 million). Management of the Group are of the opinion that the Group is entitled to legally and effectively occupy or use the above-mentioned premises.

18 Intangible assets

	The Group			
	Land use right	Computer software	Others	Total
Cost				
As at 1 January 2019	278,832	1,120,118	5,625	1,404,575
Additions	9,999	460,424	-	470,423
As at 31 December 2019	288,831	1,580,542	5,625	1,874,998
Accumulated amortisation				
As at 1 January 2019	(91,273)	(775,099)	(2,060)	(868,432)
Amortised for the year	(10,181)	(252,473)	(272)	(262,926)
As at 31 December 2019	(101,454)	(1,027,572)	(2,332)	(1,131,358)
Carrying amount				
As at 1 January 2019	187,559	345,019	3,565	536,143
As at 31 December 2019	187,377	552,970	3,293	743,640

	The Group			
	Land use right	Computer software	Others	Total
Cost				
As at 1 January 2018	278,832	947,047	5,568	1,231,447
Additions	-	173,071	57	173,128
As at 31 December 2018	278,832	1,120,118	5,625	1,404,575
Accumulated amortisation				
As at 1 January 2018	(85,368)	(633,626)	(1,783)	(720,777)
Amortised for the year	(5,905)	(141,473)	(277)	(147,655)
As at 31 December 2018	(91,273)	(775,099)	(2,060)	(868,432)
Carrying amount				
As at 1 January 2018	193,464	313,421	3,785	510,670
As at 31 December 2018	187,559	345,019	3,565	536,143

19 Deferred tax assets and liabilities

(1) Analysed by nature

	Note	The Group				
		31 December 2019				
		Deductible temporary differences	Deferred tax assets	Taxable temporary differences	Deferred tax liabilities	Net balance
Deferred tax assets						
Provision for impairment losses		49,905,063	12,457,697	-	-	12,457,697
Employee benefits payable		4,255,031	1,060,163	-	-	1,060,163
Accrued expense		471,276	117,819	-	-	117,819
Fair value change		-	-	(578,083)	(139,156)	(139,156)
Others	(i)	165,210	41,067	-	-	41,067
Total		54,796,580	13,676,746	(578,083)	(139,156)	13,537,590

	Note	The Group				
		31 December 2018				
		Deductible temporary differences	Deferred tax assets	Taxable temporary differences	Deferred tax liabilities	Net balance
Deferred tax assets						
Provision for impairment losses		36,727,868	9,178,642	-	-	9,178,642
Employee benefits payable		3,540,725	885,037	-	-	885,037
Fair value change		184,743	34,687	(1,800,252)	(450,063)	(415,376)
Others	(i)	165,910	41,767	-	-	41,767
Total		40,619,246	10,140,133	(1,800,252)	(450,063)	9,690,070

(i) Others mainly represent the temporary differences arising from long-term deferred expenses, as well as the difference in amortization period between accounting policy and tax requirement for intangible assets.

(2) Movements of deferred tax

	The Group			
	2019			
	1 January 2019	Recognised in profit or loss	Recognised in equity	31 December 2019
Deferred tax assets				
Deferred tax				
- Provision for impairment losses	9,045,127	3,412,570	-	12,457,697
- Employee benefits payable	885,037	175,126	-	1,060,163
- Accrued expenses	-	117,819	-	117,819
- Fair value change	(186,436)	6,340	40,939	(139,157)
- Others	41,767	(699)	-	41,068
Net balance	9,785,495	3,711,156	40,939	13,537,590

	The Group			
	2018			
	1 January 2018	Recognised in profit or loss	Recognised in equity	31 December 2019
Deferred tax assets				
Deferred tax				
- Provision for impairment losses	5,877,529	3,301,113	-	9,178,642
- Employee benefits payable	708,101	176,936	-	885,037
- Fair value change	1,159,713	(1,162,358)	(412,731)	(415,376)
- Others	38,096	3,671	-	41,767
Net balance	7,783,439	2,319,362	(412,731)	9,690,070

	The Group			
	2018			
	1 January 2018	Recognised in profit or loss	Recognised in equity	31 December 2019
Deferred tax				
- Provision for impairment losses	22,200	(22,200)	-	-
- Fair value change	(77,577)	-	77,577	-
- Others	(364)	364	-	-
Net balance	(55,741)	(21,836)	77,577	-

20 Other assets

	Note	The Group	
		31 December 2019	31 December 2018
Suspense account for clearing		6,974,758	3,697,256
Precious metals		3,048,232	3,889,072
Receivables		1,989,352	1,736,618
Prepayments	(i)	505,309	663,475
Interest receivables	(ii)	357,170	-
Long-term deferred expenses	(iii)	323,632	267,034
Pledged deposits		278,404	389,331
Repossessed assets	(iv)	-	105,310
Others		740,061	421,877
Total		14,216,918	11,169,973
Less: Provision for impairment losses	V. 21	(192,832)	(134,810)
Net balance		14,024,086	11,035,163

(i) Prepayments mainly represent prepayments for office buildings, decorations for branches and other projects.

(ii) From January 1, 2019, according to the requirements of the new financial statement format for financial enterprises, the Group reclassifies the financial instruments' interests based on the actual interest rate method into the book balance of the corresponding financial instrument , and the "interest receivable" item is no longer listed separately. Interests related to financial instruments that have been due but not yet received have been reclassified to other assets. The group does not restate the comparative figures.

(iii) Long-term deferred expenses

	The Group			
	Year ended 31 December 2019			
	As at 1 January	Additions	Amortisation charged for the year	As at 31 December
Leasehold improvements	221,651	162,022	(109,992)	273,681
Others	45,383	9,881	(5,313)	49,951
Total	267,034	171,903	(115,305)	323,632

	The Group			
	Year ended 31 December 2018			
	As at 1 January	Additions	Amortisation charged for the year	As at 31 December
Leasehold improvements	166,552	176,381	(121,282)	221,651
Others	36,864	16,057	(7,538)	45,383
Total	203,416	192,438	(128,820)	267,034

(iv) Repossessed assets represent shares in third parties. From January 1, 2019, these assets were classified as financial assets measured at FVTPL under the new financial instruments standards. According to the requirements of the new financial statement format for financial enterprises, the Group reclassifies the repossessed assets as financial assets held for trading. The group does not restate the comparative figures.

21 Provision for impairment losses

Impaired items	Note	The Group As at 1 January 2019	Charge/ (recoveries) for the year	Write-off and others	As at 31 December 2019
Cash and deposits with central bank	V. 1	4	(3)	-	1
Deposits with banks and other financial institutions	V. 2	39,264	22,261	-	61,525
Placements with banks and other financial institutions	V. 3	365,450	114,627	-	480,077
Financial assets held under resale agreements	V. 6	1,101,642	(1,050,137)	-	51,505
Loans and advances to customers					
- measured at amortised cost	V. 8	30,820,916	11,544,916	(7,375,436)	34,990,396
- measured at FVOCI	V. 8	1,625,288	1,324,056	-	2,949,344
Debt investments	V. 10	4,278,285	1,395,504	(116,889)	5,556,900
Other debt investments	V. 11	358,963	(29,308)	-	329,655
Other assets	V. 20	39,011	165,951	(12,130)	192,832
Total		38,628,823	13,487,867	(7,504,455)	44,612,235

Impaired items	Note	The Group As at 1 January 2018	Charge for the year	Recoveries for the year	Write-off and others	As at 31 December 2018
Placements with banks and other financial institutions	V. 3	26,799	9,424	-	-	36,223
Financial assets held under resale agreements	V. 6	135,454	-	-	94,964	230,418
Loans and advances to customers	V. 8	20,830,293	16,956,725	(1,654,524)	(3,797,035)	32,335,459
Available-for-sale financial assets	V. 13	730,535	583,321	-	(300,000)	1,013,856
Held-to-maturity investments	V. 14	3,596	823,823	-	-	827,419
Investment securities classified as receivables	V. 15	7,611,853	-	(1,495,438)	(105,885)	6,010,530
Other assets	V. 20	40,323	94,366	-	121	134,810
Total		29,378,853	18,467,659	(3,149,962)	(4,107,835)	40,588,715

Impaired items	Note	The Bank As at 1 January 2019	Charge/ (recoveries) for the year	Write-off and others	As at 31 December 2019
Deposits with banks and other financial institutions	V. 2	36,399	20,922	-	57,321
Placements with banks and other financial institutions	V. 3	363,383	115,921	-	479,304
Financial assets held under resale agreements	V. 6	194,038	(191,622)	-	2,416
Loans and advances to customers					
- measured at amortised cost	V. 8	30,416,873	11,523,558	(7,290,380)	34,650,051
- measured at FVOCI	V. 8	1,625,288	1,324,056	-	2,949,344
Debt investments	V. 10	5,222,849	451,707	(116,889)	5,557,667
Other debt investments	V. 11	347,637	(46,655)	-	300,982
Other assets	V. 20	11,293	4,265	-	15,558
Total		38,217,760	13,202,152	(7,407,269)	44,012,643

Impaired items	Note	The Bank				
		As at 1 January 2018	Charge for the year	Recoveries for the year	Write-off and others	As at 31 December 2018
Placements with banks and other financial institutions	V. 3	26,799	5,884	-	-	32,683
Loans and advances to customers	V. 8	20,346,607	16,791,740	(1,556,709)	(3,610,617)	31,971,021
Available-for-sale financial assets	V. 13	730,535	583,321	-	(300,000)	1,013,856
Held-to-maturity investments	V. 14	3,596	823,823	-	-	827,419
Investment securities classified as receivables	V. 15	7,848,140	-	(1,495,438)	-	6,352,702
Other assets	V. 20	11,304	95,789	-	-	107,093
Total		28,966,981	18,300,557	(3,052,147)	(3,910,617)	40,304,774

22 Deposits from banks and other financial institutions

Analysed by type and geographical location of counterparty

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deposits in mainland China				
- Banks	121,380,131	100,731,341	122,078,693	101,374,879
- Other financial institutions	218,637,264	218,590,388	218,735,362	218,691,923
Deposits outside mainland China				
- Banks	52,836,639	49,646,621	52,836,676	49,652,851
Accrued interest	1,763,478	N/A	1,765,306	N/A
Total	394,617,512	368,968,350	395,416,037	369,719,653

23 Placements from banks and other financial institutions

Analysed by type and geographical location of counterparty

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Placements in mainland China				
- Banks	31,504,695	34,539,844	31,156,345	34,539,844
- Other financial institutions	-	200,000	-	200,000
Placements outside mainland China				
- Banks	42,229,539	33,596,294	37,759,285	29,976,410
Accrued interest	430,777	N/A	413,084	N/A
Total	74,165,011	68,336,138	69,328,714	64,716,254

24 Financial liabilities held for trading

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial liabilities held for trading				
- Short position in bond	300,120	-	300,120	-
- Others	-	7,168	-	-
Sub-total	300,120	7,168	300,120	-
Financial liabilities designated at fair value through profit or loss	100,307	-	-	-
Total	400,427	7,168	300,120	-

25 Financial assets sold under repurchase agreements

(1) Analysed by type of collateral

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Securities				
- Government bonds	33,524,500	34,575,900	33,524,500	34,575,900
- Policy bank bonds	7,354,320	9,982,040	7,354,320	9,982,040
- Commercial bank and other financial institution bonds	276,382	-	-	-
- Enterprise bonds	215,786	-	-	-
Sub-total	41,370,988	44,557,940	40,878,820	44,557,940
Bank deposit receipt	-	296,000	-	296,000
Commercial bills	21,950,385	16,297,318	21,950,385	16,297,318
Accrued interest	28,292	N/A	26,926	N/A
Total	63,349,665	61,151,258	62,856,131	61,151,258

(2) Analysed by type and geographical location of counterparty

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
In mainland China				
- Banks	40,310,989	42,740,356	40,310,989	42,740,356
- Other financial institutions	22,518,216	18,410,902	22,518,216	18,410,902
Outside mainland China				
- Banks	492,168	-	-	-
Accrued interest	28,292	N/A	26,926	N/A
Total	63,349,665	61,151,258	62,856,131	61,151,258

26 Deposits from customers

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Demand deposits				
- Corporate customers	368,772,704	336,208,174	366,848,619	334,726,519
- Personal customers	71,408,626	63,933,594	71,312,051	63,658,570
Sub-total	440,181,330	400,141,768	438,160,670	398,385,089
Time deposits (include call deposits)				
- Corporate customers	437,949,819	393,687,032	426,964,604	384,895,878
- Personal customers	220,329,750	166,373,714	219,447,640	165,967,911
Sub-total	658,279,569	560,060,746	646,412,244	550,863,789
Pledged deposits	87,610,513	82,287,091	86,993,548	81,752,484
Accrued interest	17,480,140	N/A	17,366,719	N/A
Total	1,203,551,552	1,042,489,605	1,188,933,181	1,031,001,362

27 Employee benefits payable

	Note	The Group	
		31 December 2019	31 December 2018
Short-term employee benefits	(i)	3,205,626	2,592,986
Post employment benefits – defined contribution plans	(ii)	-	-
Termination benefits		877	1,643
Other long-term employee benefits	(iii)	1,177,932	1,105,539
Total	(iv)	4,384,435	3,700,168

(i) Short-term employee benefits

	The Group			
	As at 1 January 2019	Increased during the year	Decreased during the year	As at 31 December 2019
Salaries, bonuses, allowances	2,577,691	4,067,990	(3,460,009)	3,185,672
Staff welfare	-	192,189	(192,189)	-
Social insurance				
- Medical insurance	-	203,460	(203,460)	-
- Maternity insurance	-	18,972	(18,972)	-
- Work-related injury insurance	-	3,037	(3,037)	-
Housing fund	-	261,843	(261,843)	-
Labour union fee, staff and workers' education fee	14,153	85,655	(84,481)	15,327
Others	1,142	239,330	(235,845)	4,627
Total	2,592,986	5,072,476	(4,459,836)	3,205,626

	The Group			
	As at 1 January 2018	Increased during the year	Decreased during the year	As at 31 December 2018
Salaries, bonuses, allowances	1,905,502	3,682,350	(3,010,161)	2,577,691
Staff welfare	-	178,501	(178,501)	-
Social insurance				
- Medical insurance	-	185,756	(185,756)	-
- Maternity insurance	-	17,332	(17,332)	-
- Work-related injury insurance	-	2,996	(2,996)	-
Housing fund	-	235,118	(235,118)	-
Labour union fee, staff and workers' education fee	9,875	76,169	(71,891)	14,153
Others	-	196,569	(195,427)	1,142
Total	1,915,377	4,574,791	(3,897,182)	2,592,986

(ii) Post employment benefits – defined contribution plans

	The Group			
	As at 1 January 2019	Increased during the year	Decreased during the year	As at 31 December 2019
Basic pension insurance	-	353,346	(353,346)	-
Unemployment insurance	-	10,270	(10,270)	-
Annuity	-	183,779	(183,779)	-
Others	-	718	(718)	-
Total	-	548,113	(548,113)	-

	The Group			
	As at 1 January 2018	Increased during the year	Decreased during the year	As at 31 December 2018
Basic pension insurance	-	361,768	(361,768)	-
Unemployment insurance	-	9,376	(9,376)	-
Annuity	-	148,429	(148,429)	-
Others	-	486	(486)	-
Total	-	520,059	(520,059)	-

(iii) The other long-term employee benefits of the group are deferred payment which are accrued according to the requirements of regulators and the relevant regulations of the bank. The timeline for the deferred payment is three years.

(iv) There were no arrears balance among the Group's employee benefits payable.

28 Taxes payable

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Income tax payable		4,491,637	2,942,867	4,397,341	2,901,021
VAT and surcharges payable		1,015,569	1,344,608	1,012,198	1,332,561
Others	(i)	8,815	5,977	5,752	5,854
Total		5,516,021	4,293,452	5,415,291	4,239,436

(i) Others include property tax, land use tax and etc.

29 Interests payable

	The Group			
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deposits from customers	N/A	12,619,625	N/A	12,557,735
Deposits from banks and other financial institutions	N/A	2,373,661	N/A	2,375,404
Borrowings from central bank	N/A	1,480,501	N/A	1,480,442
Debt securities issued	N/A	461,926	N/A	359,884
Placements from banks and other financial institutions	N/A	412,362	N/A	393,211
Financial assets sold under repurchase agreements	N/A	35,052	N/A	35,052
Total	N/A	17,383,127	N/A	17,201,728

From January 1, 2019, according to the requirements of the new financial statement format of financial enterprises, the interest of the financial instrument calculated and withdrawn based on the effective interest rate method is included in the book balance of the corresponding financial instrument, and the "interest payable" item is no longer listed separately. The group does not restate prior comparisons.

30 Provision

Analysed by the nature

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Provision for credit losses on off-balance-sheet assets	7,168,161	-	7,125,801	-

31 Debt securities issued

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Negotiable certificates of deposit issued	(i)	149,411,386	166,365,370	149,411,386	166,365,370
Subordinated debts and tier 2 capital bonds issued	(ii)	34,996,006	14,992,736	34,996,006	14,992,736
Other Note instruments	(iii)	3,464,067	3,425,033	-	-
Certificate of deposit	(iv)	2,304,290	4,592,391	-	-
Accrued interest		536,633	N/A	474,404	N/A
Total		190,712,382	189,375,530	184,881,796	181,358,106

Analysis of the movement of Debt securities issued (excluding accrued interest):

	Note	The Group				
		2019				
		1 January 2019	Issued for the year	Repaid for the year	Amortisation of discounts or premiums	31 December 2019
Negotiable certificates of deposit issued	(i)	166,365,370	817,210,000	(834,400,000)	236,016	149,411,386
Subordinated debts and tier 2 capital bonds issued	(ii)	14,992,736	20,000,000	-	3,270	34,996,006
Other Note instruments	(iii)	3,425,033	-	-	39,034	3,464,067
Certificate of deposit	(iv)	4,592,391	2,089,588	(4,414,991)	37,302	2,304,290
Total		189,375,530	839,299,588	(838,814,991)	315,622	190,175,749

	Note	The Group				
		2018				
		1 January 2018	Issued for the year	Repaid for the year	Amortisation of discounts or premiums	31 December 2018
Negotiable certificates of deposit issued	(i)	150,635,724	877,840,000	(861,830,000)	(280,354)	166,365,370
Subordinated debts and tier 2 capital bonds issued	(ii)	14,989,466	-	-	3,270	14,992,736
Other Note instruments	(iii)	651,100	3,418,107	(651,100)	6,926	3,425,033
Certificate of deposit	(iv)	1,871,788	8,967,590	(6,344,994)	98,007	4,592,391
Total		168,148,078	890,225,697	(868,826,094)	(172,151)	189,375,530

	Note	The Bank				
		2019				
		1 January 2019	Issued for the year	Repaid for the year	Amortisation of discounts or premiums	31 December 2019
Negotiable certificates of deposit issued	(i)	166,365,370	817,210,000	(834,400,000)	236,016	149,411,386
Subordinated debts and tier 2 capital bonds issued	(ii)	14,992,736	20,000,000	-	3,270	34,996,006
Total		181,358,106	837,210,000	(834,400,000)	239,286	184,407,392

	Note	The Bank				
		2018				
		1 January 2018	Issued for the year	Repaid for the year	Amortisation of discounts or premiums	31 December 2018
Negotiable certificates of deposit issued	(i)	150,635,724	877,840,000	(861,830,000)	(280,354)	166,365,370
Subordinated debts and tier 2 capital bonds issued	(ii)	14,989,466	-	-	3,270	14,992,736
Total		165,625,190	877,840,000	(861,830,000)	(277,084)	181,358,106

(i) As at 31 December 2019, the Group and the Bank held 84 unmature negotiable certificates of deposit that were issued in the inter-bank market. The maximum maturity is 366 days. The interest rate ranges from 2.81% to 3.30% (As at 31 December 2018, the Group and the Bank held 75 unmature negotiable certificates of deposit that were issued in the inter-bank market. The maximum maturity is 365 days. The interest rate ranges from 2.80% to 4.50%).

(ii) As at the balance sheet date, details for subordinated debts and tier 2 capital bonds issued by the Group and the Bank are shown as follows:

	Note	31 December 2019	31 December 2018
Subordinated fixed rate bonds maturing in May 2021	(a)	2,500,000	2,500,000
Subordinated fixed rate bonds maturing in May 2026	(a)	2,500,000	2,500,000
Subordinated fixed rate bonds maturing in December 2027	(b)	4,996,791	4,995,701
Fixed-rate tier 2 capital bonds maturing in May 2025	(c)	4,999,215	4,997,035
Fixed-rate tier 2 capital bonds maturing in November 2029	(d)	20,000,000	-
Total		34,996,006	14,992,736

(a) The Group issued two tranches of subordinated bonds total amounting to RMB5 billion in the inter-bank market, including 10-years bonds with face value of RMB2.5 billion and 15-years bonds with face value of RMB2.5 billion on 20 May 2011. The 10-years bonds bear a fixed annual coupon interest rate of 5.6% and the 15-years bonds bear a fixed annual coupon interest rate of 5.8%.

(b) The Group issued 15-years fixed interest rate bonds with face value RMB5 billion on 5 December 2012. The coupon interest rate per annum is 5.35%. The Group has the option to redeem all of the bonds at face value on 6 December 2022 upon regulatory approval.

(c) The Group issued 10-years fixed-rate tier 2 capital bonds with face value RMB5 billion on 7 May 2015. The coupon interest rate per annum is 5.32%. The Group has the option to redeem all of the bonds at face value on 11 May 2020 upon regulatory approval.

(d) The Group issued 10-years fixed-rate tier 2 capital bonds with face value RMB20 billion on 8 November 2019. The coupon interest rate per annum is 4.18%. The Group has the option to redeem all of the bonds at face value on 12 November 2024 upon regulatory approval.

(iii) As at 31 December 2019 and 31 December 2018, 1 other US dollar bonds total issued nonpublicly by the Group in Singapore. The maximum maturity is 3 years and the coupon interest rate per annum is 3.125%.

(iv) Certificates of deposit issued by the Group were issued publicly by Hong Kong Subsidiary in the Hong Kong market. As at 31 December 2019, the Group held 6 unmature certificates of deposit. The maximum maturity is 1095 days. The interest rate ranges from 1.16% to 3.29% (As at 31 December 2018, the Group held 14 unmature certificates of deposit. The maximum maturity is 1095 days. The interest rate ranges from 2.00% to 4.60%).

32 Other liabilities

	The Group	
	31 December 2019	31 December 2018
Suspense account for clearing	3,125,573	4,284,172
Accrued expenses	471,275	332,929
Dormant accounts	469,232	359,753
Deferred income	437,578	370,142
Payment and collection clearance accounts	348,814	352,317
Dividend payable	232,461	192,422
Payables for purchase of long-term assets	158,780	152,788
Others	874,037	482,832
Total	6,117,750	6,527,355

33 Share capital

	The Group and the Bank		
	1 January 2019	Share capital increased by capital reserve transfer	31 December 2019
Share capital listed in mainland China	10,928,099	3,278,430	14,206,529

As explained in Note V.39, pursuant to the Shareholders' resolutions approved on 14 June 2019, the Bank increased 3 shares per 10 shares from capital reserve on basis of the share capital at the end of 2018 which was 10,928,099 thousand shares. The share capital of the Bank was subsequently increased by RMB 3.278 billion.

34 Other equity instruments

(1) Preference shares that remain outstanding at the end of the year are set out as follows:

Outstanding financial instruments	Issuance date	Accounting classification	Dividend or interest rate	Issuance price RMB	Quantity Million	Amount Thousand	Maturity date or renewal status	Conditions for conversion	Conversion status
Preference shares	December 2017	Equity instruments	5.20%	100/share	200	20,000,000	Sustainable	Compulsory	None
Less: issuance cost						(42,830)			
Total						19,957,170			

(2) Major terms

(i) Dividend

This preferred stock adopts a dividend rate that can be adjusted in stages , which means that the dividends will be paid at the same rate within a period and the rate will be reset every five years.

The coupon dividend rate includes the benchmark interest rate and the fixed premium. The benchmark interest rate is the arithmetic average of the yield of the national debt for five years in the first twenty trading days (exclude the day) for the deadline of the issue of the priority share or the adjustment day of the benchmark interest rate (repricing day). The benchmark interest rate will be adjusted every five years from the date of issuing the preferred shares. The fixed premium is determined by the coupon dividend rate at the issue date, after deducting the benchmark rate. Once the fixed premium determined, it will be no longer adjusted.

At the repricing day, a new dividend rate will be determined by the sum of benchmark rate at the day and the initial fixed premium.

Dividends will be paid annually.

(ii) Conditions to distribution of dividends

The Bank could pay dividends while the Bank's capital adequacy ratio meets regulatory requirements, and the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions. Preference shareholders of the Bank are prior to the ordinary shareholders on the right to dividends. Dividend payments are not linked to the bank's own ratings, nor are they adjusted according to the rating changes.

The Bank may elect to cancel any dividend and it does not constitute a breach of contract. The bank can freely control the cancellation of preferred stock dividends for repayment of other debts due. The cancellation of preferred stock dividends does not constitute any other restrictions on the bank, except for the dividend distribution restrictions on common stock.

(iii) Dividend stopper

The Bank will inform Preference Shareholders at least ten days before the interest payment day if the Bank cancels the dividends to the Preference Shareholders. If the Bank cancels all or part of the dividends to the Preference Shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the Preference Shareholders in full. Paying the dividends in full indicates that the Bank determines to restart paying all the dividends to Preference Shareholders. Since the preferred share is paid by non-cumulative dividends, the bank will not distribute dividends that have been cancelled in previous years.

(iv) Order of distribution and liquidation method

Preferred stockholders have priority over common stockholders in allocating residual property. The amount paid is the sum of the preferred shares which has been issued and still existent and the dividends has been declared but not paid during the current period. The amount not sufficient to pay is allocated according to the proportion of preferred shareholders. The current Preference Shareholders as well as the new Preference Shareholders in the future will rank equally for payment. The order arrangement of the preferred shareholders and the holders of other tier one capital instruments issued by the bank in the future subject to the relevant regulatory requirements.

(v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier 1 Capital Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Group falling to 5.125% or below), the Bank shall have the right to convert all or part of the Preference Shares into A shares, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Group to be above 5.125%. In the case of partial transfer, the preferred stock will be converted into shares on the same proportion and on the same terms.

Upon the occurrence of a Non-Viability Trigger Event (Earlier of the two situations: (1) CBRC has determined that the Bank would become non-viable if there is no conversion or write-down of preference share; or (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable), the Bank shall have the right to convert all Preference Shares into A shares.

If Preference Shares were converted to A shares, they may not be converted to Preference Shares again.

(vi) Redemption

The preferred shares have no maturity date. After five years since the date of issuance under the premise of obtaining the approval of the CBRC and compliance with regulatory requirements, the Bank has right to redeem all or some of domestic preference shares at the payment day of each year. The redemption period of preference shares ranges from five years after the issue date to the date of full redemption or conversion.

Redemption price is equal to book value plus accrued dividend in current period.

(3) Movement of the preference shares that remain outstanding at the end of the year:

Outstanding financial instruments	At the beginning of the year		Additions during the year		At the end of the year	
	Quantity Million	Carrying value Thousand	Quantity Million	Carrying value Thousand	Quantity Million	Carrying value Thousand
Preference shares	200	19,957,170	-	-	200	19,957,170

(4) Relevant information of amounts attributable to holders of equity instruments

	31 December 2019	31 December 2018
Equity attributable to shareholders of the Company	176,708,612	161,276,549
- Equity attributable to ordinary shareholders of the Company	156,751,442	141,319,379
- Equity attributable to holders of the Company's other equity instruments	19,957,170	19,957,170
Equity attributable to non-controlling shareholders	518,019	492,059
- Equity attributable to non-controlling ordinary shareholders	518,019	492,059
- Equity attributable to non-controlling shareholders of other equity instruments	-	-

35 Capital reserve

	The Group			
	As at 1 January 2019	Additions during the year	Decrease during the year (i)	As at 31 December 2019
Share premium	25,329,889	-	(3,278,430)	22,051,459
Other capital reserve	1,475	-	-	1,475
Total	**25,331,364**	**-**	**(3,278,430)**	**22,052,934**

	As at 1 January 2018	Additions during the year(ii)	Decrease during the year (iii)	As at 31 December 2018
Share premium	28,452,203	-	(3,122,314)	25,329,889
Other capital reserve	-	1,475	-	1,475
Total	**28,452,203**	**1,475**	**(3,122,314)**	**25,331,364**

	The Bank			
	As at 1 January 2019	Additions during the year	Decrease during the year (i)	As at 31 December 2019
Share premium	25,329,889	-	(3,278,430)	22,051,459

	As at 1 January 2018	Additions during the year	Decrease during the year (iii)	As at 31 December 2018
Share premium	28,452,203	-	(3,122,314)	25,329,889

(i) As explained in Note V.39, pursuant to the Shareholders' resolutions approved on 14 June 2019, the Bank increased 3 shares per 10 shares from capital reserve on basis of the share capital at the end of 2018 which was 10,928,099 thousand shares. The share capital of the Bank was subsequently increased by RMB 3.278 billion.

(ii) In January 2018, Minhang Rural increased capital and shares by introducing new investors. The difference before and after the capital increase in the net asset share of Minhang Rural was approximately RMB 1.47 million, which was included in the capital reserve.

(iii) As explained in Note V.39, pursuant to the Shareholders' resolutions approved on 22 June 2018, the Bank increased 4 shares per 10 shares from capital reserve on basis of the share capital at the end of 2017 which was 7,805,785 thousand shares. The share capital of the Bank was subsequently increased by RMB 3.122 billion.

36 Other comprehensive income

Item	The Group 2019								
	Balance at the end of the prior year attributable to shareholders of the Bank	Adjustment on the changes of accounting policies	Balance at the beginning of the year attributable to shareholders of the Bank	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount attributable to shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests	Balance at the end of the year attributable to shareholders of the Bank
Items that may not be reclassified to profit or loss									
Gains or losses arising from changes in fair value of the financial investments designated at FVOCI	N/A	173,416	173,416	(98,219)	-	24,555	(73,664)	-	99,752
Items that may be reclassified to profit or loss									
Including:									
Gains or losses arising from changes in fair value of the debt financial investments measured at FVOCI	N/A	42,274	42,274	314,467	(217,968)	16,384	112,883	-	155,157
Credit loss of the financial investments measured at FVOCI	N/A	1,984,251	1,984,251	1,324,057	(29,308)	-	1,294,749	-	3,279,000
Gains or losses arising from changes in fair value of available-for-sale financial assets	386,617	(386,617)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Translation differences arising from translation of foreign currency financial statements	240,837	-	240,837	75,172	-	-	75,172	-	316,009
Total	627,454	1,813,324	2,440,778	1,615,477	(247,276)	40,939	1,409,140	-	3,849,918

Item	The Bank 2019							
	Balance at the beginning of the year attributable to shareholders of the Bank	Adjustment on the changes of accounting policies	Balance at the beginning of the year attributable to shareholders of the Bank	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Other comprehensive Balance at the end of the year
Items that may not be reclassified to profit or loss								
Gains or losses arising from changes in fair value of the Financial investments designated at FVOCI	N/A	173,416	173,416	(98,219)	-	24,555	(73,664)	99,752
Items that may be reclassified to profit or loss								
Including:								
Gains or losses arising from changes in fair value of the debt financial investments measured at FVOCI	N/A	169,667	169,667	114,768	(204,084)	22,329	(66,987)	102,680
Credit loss of the financial investments measured at FVOCI	N/A	1,972,925	1,972,925	1,324,056	(46,655)	-	1,277,401	3,250,326
Gains or losses arising from changes in fair value of available-for-sale financial assets	499,252	(499,252)	N/A	N/A	N/A	N/A	N/A	N/A
Total	499,252	1,816,756	2,316,008	1,340,605	(250,739)	46,884	1,136,750	3,452,758

Item	The Group						
	2018						
	Balance at the beginning of the year attributable to shareholders of the Bank	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount attributable to shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests	Balance at the end of the year attributable to shareholders of the Bank
Items that may be reclassified to profit or loss							
Including:							
Gains or losses arising from changes in fair value of available-for-sale financial assets	(618,633)	1,616,716	(294,629)	(335,154)	1,005,250	(18,317)	386,617
Translation differences arising from translation of foreign currency financial statements	47,296	193,541	-	-	193,541	-	240,837
Total	(571,337)	1,810,257	(294,629)	(335,154)	1,198,791	(18,317)	627,454

Item	The Bank					
	2018					
	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Balance at the end of the year
Items that may be reclassified to profit or loss						
Gains or losses arising from changes in fair value of available-for-sale financial assets	(789,144)	1,908,231	(190,370)	(429,465)	1,288,396	499,252

37 Surplus reserve

	The Group and The Bank		
	Statutory surplus reserve	Discretionary surplus reserve	Total
As at 1 January 2018	9,709,432	16,725,868	26,435,300
Appropriation	1,511,418	3,022,836	4,534,254
As at 31 December 2018	11,220,850	19,748,704	30,969,554
As at 1 January 2019	11,220,850	19,748,704	30,969,554
Appropriation	1,768,044	3,536,088	5,304,132
As at 31 December 2019	12,988,894	23,284,792	36,273,686

In accordance with Company Law of the People's Republic of China and the Bank's Articles of Association, the Bank is required to appropriate 10% of its net profit to the statutory surplus reserve until the balance reaches 50% of its registered capital. Subject to the approval of shareholders' meeting, statutory and discretionary surplus reserves may be used to net off with accumulated losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

After the appropriation of statutory surplus reserve, discretionary surplus reserve may be appropriated from the net profit subject to the approval of shareholders' meeting. Upon the approval of shareholders' meeting, discretionary surplus reserves may be used to net off with accumulated losses, if any, and may be converted into capital.

As at 1 January 2018, the balance of the statutory surplus reserve of the Bank has reached 50% of its registered capital. The Bank continued to appropriate 10% of its net profit to the statutory surplus reserve according to the shareholders' resolutions on 22 June 2018 and 14 June 2019.

38 General reserve

	The Group		The Bank	
	2019	2018	2019	2018
As at 1 January	25,804,758	25,780,256	25,630,000	25,630,000
Appropriation	2,629,605	24,502	2,700,000	-
As at 31 December	28,434,363	25,804,758	28,330,000	25,630,000

According to the Notice on Administrative Measures on Accrual of Provisions by Financial Enterprises (Cai Jin [2012] No.20) issued by the MOF, a financial enterprise shall appropriate from net profits an amount of not less than 1.5% of its risk-bearing assets at the year end as general reserve.

General reserve of the Group also includes other general reserves accrued by the Bank's subsidiaries in accordance with the laws and regulations applicable to the business industry or region.

39 Appropriation of profits

(i) According to the resolution made in the 12th session of the 5th Board Meeting on October 25, 2019, it was decided to declare a cash dividend of RMB 5.20 (tax inclusive) per share based on the 5.20% dividend yield ratio of the par value of the preferred stock -Shangyinyou 1. Then, the total dividends paid amount to RMB 1.04 billion (tax inclusive), and the date of dividend payment was on December 19, 2019.

(ii) In accordance with the resolution of the shareholders' meeting of the Bank on 14 June 2019, the shareholders approved the following profit appropriations and capital reserve addition for the year ended 31 December 2018:

- Appropriation for statutory surplus reserve at 10% of 2018 after-tax profits;
- Appropriation for discretionary surplus reserve at 20% of 2018 after-tax profits;
- RMB2.7 billion for the general reserve;
- RMB4.50 per 10 shares (including tax) with the aggregate amount of RMB4.918 million as cash dividend to the shareholders on the register;
- Converting capital reserve into new shares on the basis of 10,928,099,000 shares of the total share capital at the end of 2018, by three shares for every ten existing shares with the total new shares amounting to RMB3,278 million.

(iii) According to the resolution made in the 8th session of the 5th Board Meeting on October 26, 2018, it was decided to declare a cash dividend of RMB 5.20 (tax inclusive) per share based on the 5.20% dividend yield ratio of the par value of the preferred stock -Shangyinyou 1. Then, the total dividends paid amount to RMB 1.04 billion (tax inclusive), and the date of dividend payment was on December 19, 2018.

(iv) In accordance with the resolution of the shareholders' meeting of the Bank on 22 June 2018, the shareholders approved the following profit appropriations and share capital increase from capital reserve for the year ended 31 December 2017:

- Appropriation for statutory surplus reserve at 10% of 2017 after-tax profits;
- Appropriation for discretionary surplus reserve at 20% of 2017 after-tax profits;
- No general reserve extracted of year 2017;
- RMB5.00 per 10 shares (including tax) with the aggregate amount of RMB3,903 million as cash dividend to the shareholders on the register;
- Converting capital reserve into new shares on the basis of 7,805,785,000 shares of the total share capital at the end of 2017, by four shares for every ten existing shares with the total new shares amounting to RMB3,122 million.

40 Net interest income

	The Group		The Bank	
	2019	2018	2019	2018
Loans and advances to customers				
- Corporate loans and advances	27,927,491	24,633,460	27,119,049	23,781,525
- Personal loans and advances	18,470,897	13,831,166	18,410,397	13,770,297
- Discounted bills	1,841,690	1,453,720	1,841,069	1,452,776
Investment in debt instruments	21,490,170	25,860,958	21,281,807	26,386,209
Placements with banks and other financial institutions	5,643,127	5,583,690	5,628,624	5,591,047
Deposits with central bank	1,939,006	2,049,359	1,934,503	2,044,871
Financial assets held under resale agreements	935,345	1,542,899	721,845	874,001
Deposits with banks and other financial institutions	236,295	774,946	213,233	758,444
Others	127,074	146,862	118,942	128,547
Interest income	78,611,095	75,877,060	77,269,469	74,787,717
Deposits from customers				
- Corporate customers	(18,132,255)	(14,714,175)	(17,826,883)	(14,488,814)
- Individual customers	(6,249,190)	(4,761,674)	(6,231,563)	(4,749,368)
Deposits from banks and other financial institutions	(11,243,188)	(10,359,384)	(11,262,807)	(10,374,772)
Debt securities issued	(5,723,275)	(8,129,648)	(5,507,533)	(7,891,378)
Borrowings from central bank	(2,966,704)	(3,035,941)	(2,963,977)	(3,033,060)
Placements from banks and other financial institutions	(2,327,250)	(3,202,327)	(2,203,857)	(3,156,642)
Financial assets sold under repurchase agreements	(1,621,494)	(1,731,349)	(1,619,243)	(1,716,903)
Others	(27,130)	(5,733)	(14,833)	(1,717)
Interest expense	(48,290,486)	(45,940,231)	(47,630,696)	(45,412,654)
Net interest income	30,320,609	29,936,829	29,638,773	29,375,063

41 Net fee and commission income

	The Group		The Bank	
	2019	2018	2019	2018
Agent service fees	2,252,967	1,531,473	2,113,197	1,359,470
Bank card fees	1,972,339	1,802,351	1,972,339	1,802,351
Advisory service fees	1,364,647	1,394,235	1,223,480	1,303,783
Custodian and other fiduciary service fees	689,953	904,570	689,764	904,019
Settlement and clearing fees	187,357	198,639	187,311	198,395
Electronic banking service fees	99,708	86,566	99,708	86,566
Others	841,384	826,661	816,602	790,643
Fee and commission income	7,408,355	6,744,495	7,102,401	6,445,227
Settlement and clearing charges	(229,457)	(73,475)	(229,348)	(73,345)
Bank card charges	(196,325)	(415,604)	(196,311)	(415,604)
Agency expenses	(161,111)	(101,217)	(161,111)	(101,217)
Others	(254,263)	(174,660)	(238,150)	(161,948)
Fee and commission expense	(841,156)	(764,956)	(824,920)	(752,114)
Net fee and commission income	6,567,199	5,979,539	6,277,481	5,693,113

42 Net investment gains

	The Group		The Bank	
	2019	2018	2019	2018
Net gains/(losses) during the period in which financial instruments are held				
- Financial investments held for trading	6,595,694	N/A	6,581,433	N/A
- Investments in other equity instruments	38,364	N/A	38,364	N/A
- Available-for-sale financial assets	N/A	7,330,723	N/A	7,311,935
- Others	-	(1,267)	-	(2,045)
Net gains / (losses) from disposal of financial instruments				
- Financial investments held for trading	3,991,571	N/A	3,869,114	N/A
- Precious metal	319,258	213,516	319,258	213,516
- Loans and advances measured at FVOCI	128,904	N/A	128,904	N/A
- Other debt investments	89,064	N/A	75,180	N/A
- Derivatives	(108,345)	4,868	(110,929)	118,289
- Available-for-sale financial assets	N/A	294,629	N/A	190,370
- Financial assets at fair value through profit or loss	N/A	55,827	N/A	81,785
Gains from long-term equity investments accounted for using equity method	20,658	7,789	22,598	7,284
Gains from disposal of long-term equity investment	-	48	7,841	10,810
Total	11,075,168	7,906,133	10,931,763	7,931,944

43 Net gains from changes in fair value

	The Group		The Bank	
	2019	2018	2019	2018
Financial investments held for trading	1,004,755	N/A	938,451	N/A
Precious metal	483,479	(13,922)	483,479	(13,922)
Loans and advances measured at FVOCI	(8,582)	N/A	(8,582)	N/A
Derivatives	(116,479)	4,609,425	(112,791)	4,624,281
Financial assets at fair value through profit or loss	N/A	56,979	N/A	92,535
Total	1,363,173	4,652,482	1,300,557	4,702,894

44 General and administrative expenses

	The Group		The Bank	
	2019	2018	2019	2018
Staff costs				
- Short-term employee benefits	5,072,476	4,574,791	4,782,577	4,353,988
- Post-employment benefits – defined contribution plans	548,113	520,059	538,348	512,337
- Termination benefits	(238)	(400)	(238)	(400)
- Other long-term employee benefits	353,582	329,377	353,582	326,347
Sub-total	5,973,933	5,423,827	5,674,269	5,192,272
Premises and equipment expenses				
- Rental and property management expenses	826,631	799,935	781,348	754,897
- Depreciation and amortisation	803,118	744,166	785,583	718,833
- Utility charges	83,003	86,437	81,333	84,591
- Others	22,966	32,702	22,666	32,379
Sub-total	1,735,718	1,663,240	1,670,930	1,590,700
Other general and administrative expenses	2,238,905	1,919,324	2,170,679	1,870,196
Total	9,948,556	9,006,391	9,515,878	8,653,168

45 Credit losses

	The Group		The Bank	
	2019	2018	2019	2018
Loans and advances measured at amortised cost	11,544,916	N/A	11,523,558	N/A
Provision	3,661,234	N/A	3,653,332	N/A
Debt investments	1,395,504	N/A	451,707	N/A
Loans and advances measured at FVOCI	1,324,056	N/A	1,324,056	N/A
Other assets	165,951	N/A	4,265	N/A
Placements with inter-banks and other financial institutions	114,627	N/A	115,921	N/A
Deposits with inter-banks and other financial institutions	22,261	N/A	20,922	N/A
Deposits with central bank	(3)	N/A		
Other debt investments	(29,308)	N/A	(46,655)	N/A
Financial assets held under resale agreements	(1,050,137)	N/A	(191,622)	N/A
Total	17,149,101	N/A	16,855,484	N/A

From January 1, 2019, the Group reflects the credit losses recognized by the provision for credit losses of financial instruments in the "credit losses" according to the requirements of the new financial statement format of financial enterprises. The Group does not restate prior comparisons.

46 Impairment losses

	The Group		The Bank	
	2019	2018	2019	2018
Loans and advances to customers	N/A	15,302,201	N/A	15,235,031
Held-to-maturity investments	N/A	823,823	N/A	823,823
Available-for-sale financial assets	N/A	583,321	N/A	583,321
Placements with inter-banks and other financial institutions	N/A	9,424	N/A	5,884
Investment securities classified as receivables	N/A	(1,495,438)	N/A	(1,495,438)
Others	N/A	108,570	N/A	95,789
Total	**N/A**	**15,331,901**	**N/A**	**15,248,410**

From January 1, 2019, the Group reflects credit losses recognized by the provision for credit losses of financial instruments in the "credit losses" according to the requirements of the new financial statement format of financial enterprises. The Group does not restate prior comparisons.

47 Income tax expenses

(1) Income tax expenses

	The Group		The Bank	
	2019	2018	2019	2018
Current tax	6,223,774	3,653,111	6,095,835	3,541,261
Deferred tax	(3,711,156)	(2,297,526)	(3,680,609)	(2,294,291)
Tax filling differences	(468,388)	(171,548)	(467,109)	(160,048)
Total	**2,044,230**	**1,184,037**	**1,948,117**	**1,086,922**

(2) Reconciliations between income tax expenses and accounting profit:

	Note	The Group		The Bank	
		2019	2018	2019	2018
Profit before tax		**22,377,089**	**19,251,872**	**21,889,458**	**18,767,364**
Expected income tax at statutory tax rate of 25%		5,594,272	4,812,968	5,472,365	4,691,841
Effect of different tax rates applied by certain subsidiaries		(27,822)	(26,141)	-	-
Tax effect of non-taxable income	(i)	(3,908,137)	(3,607,727)	(3,906,612)	(3,600,416)
Tax effect of non-deductible expenses	(ii)	374,860	31,128	370,030	21,319
Adjustments for prior years		11,057	(26,191)	12,334	(25,822)
Income tax expenses		**2,044,230**	**1,184,037**	**1,948,117**	**1,086,922**

(i) Non-taxable income mainly represents interest income from PRC government bonds, local government bonds and investment gains from equity investments.

(ii) Non-deductable expenses mainly represent staff costs in excess of the deductible threshold, non-deductible entertainment expenses, donations and impairment losses on credit.

48 Note to the statement of cash flow

(1) Reconciliation of net profit to cash flows from operating activities:

	The Group		The Bank	
	2019	2018	2019	2018
Profit for the year	20,332,859	18,067,835	19,941,341	17,680,442
Adjustments:				
Credit losses	17,149,101	N/A	16,855,484	N/A
Impairment losses	N/A	15,331,901	N/A	15,248,410
Unwinding of discount	N/A	(117,926)	N/A	(114,688)
Depreciation and amortisation	803,118	744,166	785,583	718,833
Net losses from disposal of fixed assets, intangible assets and other long-term assets	8,485	6,867	8,485	6,867
Net gains from changes in fair value	(1,363,173)	(4,652,482)	(1,300,557)	(4,702,894)
Foreign exchange losses / (gains)	1,326,662	(321,222)	1,322,591	(334,553)
Net investment gains	(10,321,946)	(7,631,922)	(10,323,819)	(7,518,354)
Interest income from investment in debt instruments	(21,490,170)	(25,115,509)	(21,281,807)	(25,803,424)
Interest expenses on debt securities issued	5,723,275	8,129,648	5,507,533	7,891,378
Deferred taxation	(3,711,156)	(2,297,526)	(3,680,609)	(2,294,291)
Increase in operating receivables	(186,228,565)	(208,399,938)	(193,971,093)	(204,114,051)
Increase in operating payables	169,839,115	184,523,114	164,839,634	186,292,730
Net cash outflow from operating activities	(7,932,395)	(21,732,994)	(21,297,234)	(17,043,595)

(2) Changes in cash and cash equivalents:

	The Group		The Bank	
	2019	2018	2019	2018
Cash and cash equivalents at the end of the year	47,309,014	85,401,765	45,071,409	81,202,279
Cash and cash equivalents at the beginning of the year	(85,401,765)	(85,072,926)	(81,202,279)	(81,721,170)
Net (decrease) / increase in cash and cash equivalents	(38,092,751)	328,839	(36,130,870)	(518,891)

(3) Cash and cash equivalents:

	The Group		The Bank	
	2019	2018	2019	2018
Cash on hand	1,713,428	2,127,633	1,700,995	2,114,180
Balance with central bank other than restricted deposits	16,891,531	24,279,200	16,799,828	24,126,432
Deposits with banks and other financial institutions with original maturity of three months or less	11,167,720	9,885,309	9,362,305	8,129,751
Placements with banks and other financial institutions with original maturity of three months or less	16,506,305	25,704,607	16,178,251	23,426,900
Financial assets held under resale agreements with original maturity of three months or less	1,030,030	23,405,016	1,030,030	23,405,016
Cash and cash equivalents at the end of the year	47,309,014	85,401,765	45,071,409	81,202,279

Vi. Interests in Other Entities

1 Interests in subsidiaries and structured entities included in the consolidated financial statements

Composition of the Group

Main subsidiaries directly held through establishment:

Name	The Bank's shareholding percentage (i)	The Bank's voting rights percentage (i)	Registered capital	Place of operation and registration and date of establishment	Primary business
Minhang Rural (ii)	46.41%	55.51%	RMB250 million	Shanghai, 16 Feb 2011	Commercial banking
Qujiang Rural	51%	51%	RMB100 million	Zhejiang, 20 Jun 2011	Commercial banking
Jiangning Rural	51%	51%	RMB200 million	Jiangsu, 24 May 2012	Commercial banking
Chongzhou Rural	51%	51%	RMB130 million	Sichuan, 21 Jun 2012	Commercial banking
Asset Management	90%	90%	RMB300 million	Shanghai, 30 Aug 2013	Asset management

Main subsidiaries indirectly held through establishment:

Name	The Bank's sharehold-ing percentage (i)	The Bank's voting rights percentage (i)	Registered captial	Place of operation and registration and date of establish-ment	Primary business
BOSC International Company Limited ("BOSC International")	100%	100%	HKD780 million	Hong Kong, 5 Mar 2014	Investment banking
BOSC Ruijin Asset Management (Shanghai) Co., Ltd. ("BOSC Ruijin")	90%	100%	RMB130 million	Shanghai, 17 Mar 2014	Asset management
BOSC International Capital Limited	100%	100%	HKD10 million	Hong Kong, 5 Oct 2016	Corporate finance
BOSC International Asset Management Limited	100%	100%	HKD5 million	Hong Kong, 5 Oct 2016	Asset management
BOSC International Investment Limited	100%	100%	HKD1 million	Hong Kong, 5 Oct 2016	Investment
BOSC International Securities Limited	100%	100%	HKD10 million	Hong Kong, 11 Oct 2016	Securities agent
BOSC International (Shenzhen) Company Limited	100%	100%	RMB200.98 million	Shenzhen, 27 May 2017	Investment advisory
BOSC International (BVI) Limited	100%	100%	USD1	British Virgin Island, 6 Jul 2017	Financing
BOSC International Advisory (Shenzhen) Company Limited	100%	100%	RMB10 million	Shenzhen, 15 Sep 2017	Advisory
BOSC International Equity Investment Fund Management (Shenzhen) Company Limited	100%	100%	RMB10 million	Shenzhen, 20 Nov 2017	Investment management
BOSC International Investment (Shenzhen) Company Limited	100%	100%	RMB10 million	Shenzhen, 23 Nov 2017	Investment
BOSC International Investment (BVI) Limited	100%	100%	USD1	British Virgin Island, 22 Dec 2017	Investment

Main subsidiaries directly held through business combination of entities not under common control:

Name	The Bank's shareholding percentage (i)	The Bank's voting rights percentage (i)	Registered captial	Place of operation and registration	Primary business
Hong Kong Subsidiary (iii)	100%	100%	HKD4 billion	Hong Kong	Commercial banking

Structured entities that are included in the consolidated financial statements:

As at 31 December 2019, the net assets of the structured entities included in the consolidated financial statements are RMB3.8 billion (31 December 2018: RMB14.3 billion). The interests held by the Bank and its subsidiaries in the above structured entities are recognised as Financial assets held for trading, debt investments and other debt investments in their balance sheets, totalling RMB2 billion and RMB1.5 billion and RMB0.2 billion respectively (31 December 2018: RMB2 billion of available-for-sale financial assets and RMB12.1 billion of investment securities classified as receivables).

Management judges whether the Group controls investees and structured entities in accordance with the control elements listed in Note III.4. The Group involves in operating activities of investees by holding shares of investees and exercising the corresponding voting rights. When judging whether the Group controls the investees, the Group assesses the purpose of setting up the investee, related activities and decision-making mechanism, the proportion of voting rights held by the Group and its ability to influence variable interests through voting rights and other rights. After the assessment, if the Group concludes that it controls an investee, the investee will be consolidated in the consolidated financial statements.

The Group manages or invests in several structured entities, including asset management plans, debt investment plans, wealth management products, asset-backed securities and investment funds. To judge whether the Group controls such structured entities, the Group assesses the overall interests (including direct income and expected management fees) in the structured entities through its participation in the decisions on the establishment of the structured entities, the extent of its participation and related contractual arrangements, as well as its decision-making power over the structured entities. If the Group has power over the structured entities through investment contracts and other arrangements, has variable interests through its involvement in the structured entities and has the ability to affect those interests through its power over the structured entities, the Group considers that it controls the structured entities and then consolidates them in the consolidated financial statements. If the Group does not have substantive rights to the primary activities of the structured entities, or the Group acts as an agent instead of a main owner due to its insignificant proportion of the overall interests in the structured entities over which the Group has power, the Group does not consolidate the structured entities in the consolidated financial statements. For the information of the structured entities which the Group has interest in or acts as a sponsor but does not consolidate in the consolidated financial statements, see Note VI.3.

(i) The Bank's shareholding percentage and voting rights percentage are either direct or indirect percentage at the report date when the Bank has gained direct or indirect control over its subsidiaries through establishment or investment, or through business combination of entities not under common control.

(ii) Pursuant to approval from the CBRC Shanghai Branch, Minhang Rural's capital increased in January 2018. After the capital increasement, the Bank held 46.41% of the shares in Minhang Rural. According to the agreement with other shareholders of Minhang Rural, the Bank holds 55.51% of the voting rights in Minhang Rural shareholders' resolution. Therefore, the Bank believes that it controls the Minhang Rural and include it into the scope of the consolidated financial statements.

(iii) On May 2013, the Bank acquired 100% stake in China Construction Bank (Asia) Finance Limited ("CCB Asia Finance") by cash. On June 2013, CCB Asia Finance was renamed Bank of Shanghai (Hong Kong) Ltd. Hong Kong Subsidiary's capital increased by HKD1.8 billion in 2014 and its registered capital increased from HKD200 million to HKD2 billion. Hong Kong Subsidiary's capital increased by HKD2 billion in 2016 and its registered capital increased from HKD2 billion to HKD4 billion.

2 Interests in associates

Item	The Group	
	31 December 2019	31 December 2018
Associates		
- Non-significant associates	422,778	402,120

(i) Background of non-significant associates

Name	Direct Shareholding percentage	Nature of business	Registered capital	Place of operation	Place of registration	Whether strategic significant to the Group's activities
Shangkang Yinchuang	40.00%	Asset management	RMB50 million	Shanghai	Shanghai	No
ShangCheng Finance	38.00%	Consumer finance	RMB1 billion	Shanghai	Shanghai	No
Zhonghe Hengtai	0.34%	Investment	RMB29.1 million	Shenzhen	Shenzhen	No
Zhongtuo Lianjian	0.01%	Investment	RMB678.1 million	Shenzhen	Shenzhen	No

(ii) Summary financial information on non-significant associates

	The Group	
	31 December 2019	31 December 2018
Carry amount of investment	422,778	402,120

	The Group	
	31 December 2019	31 December 2018
Calculated based on shareholding percentage		
- Net profit	20,658	7,789
- Other comprehensive income	-	-
- Total comprehensive income	20,658	7,789

3 Interests in structured entities not included in the consolidated financial statements

(1) Information of structured entities not included in the consolidated financial statements

The Group's structured entities not included in the consolidated financial statements include: asset management plan, wealth management products, investment fund, debt investment plan and asset-backed securities established by third parties that are directly held by the Group, as well as non-principal-guaranteed wealth management products and investment fund established by the Group. These structured entities are designed to manage investors' assets by offering them investment products to raise funds. The Group's interests in these structured entities not included in the consolidated financial statements mainly include direct investment and management fee income received for managing these structured entities.

Considering the definition of "control" described in Note III.4(2) and the principles set out in Note VI.1, relevant agreements and its investment into structured entities, the Group does not consolidate the above structured entities in the consolidated financial statements.

As at 31 December 2019 and 31 December 2018, relevant assets and liabilities as well as their carrying amount / maximum loss exposure of the Group's interests in these structured entities not included in the consolidated financial statements through direct investment are as follows:

	31 December 2019			
	Financial assets held for trading	Debt investments	Other debt investments	Total
Asset management plans	74,465	86,242,138	-	86,316,603
Wealth management products	83,351,708	-	-	83,351,708
Investment funds	211,732,221	-	-	211,732,221
Debt investment plans	-	20,962,332	-	20,962,332
Asset-backed securities	316,438	7,751,169	268,640	8,336,247
Total	295,474,832	114,955,639	268,640	410,699,111

	31 December 2018				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investment securities classified as receivables	Total
Asset management plans	-	33,805,769	-	111,679,240	145,485,009
Wealth management products	-	149,765,297	-	-	149,765,297
Investment funds	167,838	144,495,883	-	-	144,663,721
Debt investment plans	-	25,109,386	-	-	25,109,386
Asset-backed securities	156,649	360,674	3,601,491	-	4,118,814
Total	324,487	353,537,009	3,601,491	111,679,240	469,142,227

The maximum loss exposure of the asset management plans and asset-backed securities is the amortised cost at the reporting date depending on classification of financial instruments in balance sheet. The maximum loss exposure of the management products and investment funds is the fair value at the reporting date. The maximum loss exposure of the asset-backed security is the fair value or the amortised cost at the reporting date.

(2) Interests in structured entities established by third parties

The Group holds interests in structured entities established by third parties through direct investment. As at 31 December 2019 and 31 December 2018, relevant assets and liabilities as well as their carrying amount / maximum loss exposure of the Group's interests in these structured entities established by third parties through direct investment are as follows:

	31 December 2019			
	Financial assets held for trading	Debt investments	Other debt investments	Total
Asset management plans	74,465	86,242,138	-	86,316,603
Wealth management products	83,351,708	-	-	83,351,708
Investment funds	200,579,045	-	-	200,579,045
Debt investment plans	-	20,962,332	-	20,962,332
Asset-backed securities	316,438	7,751,169	268,640	8,336,247
Total	284,321,656	114,955,639	268,640	399,545,935

	31 December 2018				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investment securities classified as receivables	Total
Asset management plans	-	33,598,093	-	111,679,240	145,277,333
Wealth management products	-	149,765,297	-	-	149,765,297
Investment funds	-	137,532,328	-	-	137,532,328
Debt investment plans	-	25,109,386	-	-	25,109,386
Asset-backed securities	156,649	360,674	3,601,491	-	4,118,814
Total	156,649	346,365,778	3,601,491	111,679,240	461,803,158

The maximum loss exposure of the asset management plans and asset-backed securities is the amortised cost at the reporting date depending on classification of financial instruments in balance sheet. The maximum loss exposure of the management products and investment funds is the fair value at the reporting date. The maximum loss exposure of the asset-backed security is the fair value or the amortised cost at the reporting date.

(3) Interests in structured entities established by the Bank, but not included in the consolidated financial statements:

Determination of the Group as promoter of a structured entity is based on the fact that the Group has played a key role in the process of setting up the structured entity or jointly setting up the entity with other parties, and that the structured entity represents an extension of the Group's main activities and maintains close business relationship with the Group after its establishment.

According to the above determination criteria, structured entities not included in the financial statements (the Group as promoter) include the Group's non-principal-guaranteed wealth management products, investment fund and asset-backed securities. As at 31 December 2019, the carrying amount of the Group's management fees receivable in the consolidated balance sheet was RMB218 million (31 December 2018: RMB450 million).

As at 31 December 2019 and 31 December 2018, relevant assets and liabilities as well as their carrying amount / maximum loss exposure of the Group's interests in these structured entities established by the Group through direct investment are as follows:

	31 December 2019
	Financial assets held for trading
Investment funds	11,153,176

	31 December 2018		
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
Asset management plans	-	207,676	207,676
Investment funds	167,838	6,963,555	7,131,393
Total	167,838	7,171,231	7,339,069

The maximum loss exposure of the asset management plans, the investment funds and the wealth management products is the fair value at the reporting date.

As at 31 December 2019, the Group's commission income from such non-principal-guaranteed wealth management products was RMB304.8 billion (2018: RMB252.7 billion). The balance of investment funds and wealth management products issued by the Group amounted to RMB92.2 billion (2018: RMB137.5 billion).

(4) Structured entities which the Group no longer held interests in and were not included in the consolidated financial statements as at 31 December 2019:

In 2019, the Group's commission income from such non-principal-guaranteed wealth management products was RMB260 million (2018: RMB270 million). In 2019, the total volume of matured non-principal-guaranteed wealth management products issued by the Group amounted to RMB116.9 billion (2018: RMB166 billion).

In 2019, the Group's income from such asset management plan and investment fund was immaterial (2018: not material).

VII. Transfer of Financial Assets

In normal course of business, the Group transfers the recognised financial assets to third parties in some transactions. These financial assets are derecognised in whole or in part if they meet the criteria for derecognition. When the Group retains substantial risk and return of the transferred assets, transfer of these financial assets does not meet the criteria for derecognition and the Group still recognises these assets in the balance sheet.

1 Transferred but not entirely derecognised financial assets

The Group's transferred but not entirely derecognised transferred financial assets mainly include debt securities loaned. The counterparties may sell such debt securities or use them for guarantees if the Group has no any default but are also obliged to return these debt securities to the Group on the agreed due date. For these transaction, the management believes that the Group retains most risk and return. Thus, these debt securities are therefore not derecognised.

	The Group and the Bank	
	31 December 2019	31 December 2018
	Debt investments	Held-to-maturity Investment
Debt securities lending transactions Carrying amount of transferred financial assets	2,960,783	6,422,043

2 Transferor's continuing involvement in transferred financial assets that are derecognised in their entirety

At 31 December 2019 and 31 December 2018, the Group and the Bank did not hold any financial assets that were derecognised with continuing involvement.

VIII. Commitments and Contingent Liabilities

1 Credit commitments

The Group's credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit etc. The potential loss of credit commitments is assessed periodically and the provision is recognised as necessary.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The contractual amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed to completely perform as contracted. Acceptances represent 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.

As credit commitments expire without being drawn upon, the total of the contractual amounts set out in the following table do not represent the expected future cash outflows.

	The Group	
	31 December 2019	31 December 2018
Credit card commitments	51,456,275	36,816,594
Irrevocable loan commitments		
- original contractual maturity less than 1 year	138,027	-
- original contractual maturity more than 1 year (inclusive)	33,319,129	19,980,739
Sub-total	84,913,431	56,797,333
Bank acceptances	90,103,934	60,756,977
Guarantees		
- Financing guarantees	40,315,390	51,445,789
- Non-financing guarantees	13,858,450	8,600,885
Letters of credit		
- Sight letter of credit	1,790,293	2,546,039
- Usance letter of credit	5,663,889	4,504,941
Sub-total	151,731,956	127,854,631
Total	236,645,387	184,651,964

2 Credit risk weighted amount

	The Group	
	31 December 2019	31 December 2018
Credit risk weighted amount of credit commitments	142,943,809	97,007,044

Credit risk weighted amount of credit commitments was calculated according to the requirements set out in the Administrative Measures on Capitals of Commercial Banks (For Trial Implementation).

3 Operating lease commitments

As at the end of the Relevant Periods, the Group's future minimum lease payments under non-cancellable operating leases for properties and other assets were as follows:

	31 December 2019	31 December 2018
Within 1 year (inclusive)	572,073	519,887
After 1 year but within 2 years (inclusive)	428,515	378,248
After 2 years but within 3 years (inclusive)	273,395	255,527
After 3 years but within 5 years (inclusive)	260,621	225,627
Above 5 years	69,982	69,145
Total	1,604,586	1,448,434

4 Capital commitments

As at the balance sheet date, the authorized capital commitment of the Group is as follows:

	31 December 2019	31 December 2018
Contracted for but not paid	185,163	302,399
Authorised but not contracted for	299,532	95,739

5 Underwriting and redemption commitments

(1) As at 31 December 2019, there were no unexpired commitments for underwriting bonds of the Group (31 December 2018: Nil).

(2) As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded in the markets at the redemption date. The redemption commitments below represent the coupon value of PRC government bonds underwritten and sold by the Group and the Bank but not yet matured at the end of the Relevant Periods:

	31 December 2019	31 December 2018
Redemption commitments	7,560,019	7,059,968

6 Unresolved litigations and disputes

As at 31 December 2019, the total related amount of litigations and disputes whereby the Group acted as defendants was RMB1,210 million (31 December 2018: RMB105 million). According to the opinion of the Group's lawyers and external lawyers, the Group recognised the related litigation provision (see Note V. 30), which they believed to be reasonable and sufficient.

As at 31 December 2019, there were a number of legal proceedings outstanding against the Group (including the cases in which the Group act as the plaintiff). The Group recognised the related litigation provision for predictable events.

IX. Entrusted Lending Business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrust assets are not assets of the Group and are not recognised in the balance sheets. The relevant surplus funding is accounted for as deposits from customers.

	The Group	
	31 December 2019	31 December 2018
Entrusted loans	137,544,480	172,875,342
Entrusted funds	137,544,480	172,875,342

X. Pledged Assets

1 Assets pledged as security

The secured liabilities related to assets pledged as security are presented as borrowings from central bank, financial assets sold under repurchase agreements, deposits from customers, financial liabilities measured at fair value through profit or loss and other liabilities at the end of the relevant periods.

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Borrowings from central bank	92,170,000	102,897,000	92,100,000	102,832,000
Financial liabilities measured at FVOCI	100,307	-	-	-
Financial assets sold under repurchase agreements	63,321,373	61,151,258	62,829,205	61,151,258
Deposits from customers	47,437,200	36,660,520	47,437,200	36,660,520
Other liabilities	-	89,715	-	-
Total	**203,028,880**	**200,798,493**	**202,366,405**	**200,643,778**

In addition, the Group provided pledged assets for bonds which were held from debt securities borrowing transactions. As at 31 December 2019, the fair value of the relevant bonds amounted to RMB 1.44 billion (31 December 2018: RMB182 million).

Transactions above are conducted under customary terms of relevant businesses.

(1) Carrying value of pledged assets (excluding accrued interest) analysed by asset type

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Securities				
- Government bonds	193,158,032	189,041,875	193,158,032	189,041,875
- Bank and other financial institution bonds	7,701,566	14,545,305	7,394,893	14,469,848
- Corporate bonds	408,368	180,037	70,539	-
Sub-total	**201,267,966**	**203,767,217**	**200,623,464**	**203,511,723**
Commercial bills	22,008,726	15,869,139	22,008,726	15,869,139
Credit assets	135,870	1,511,477	-	1,433,120
Bank certificate of deposit	-	291,267	-	291,267
Total	**223,412,562**	**221,439,100**	**222,632,190**	**221,105,249**

(2) Carrying value of pledged assets (excluding accrued interest) analysed by statement of financial position classification

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Loans and advances to customers	22,144,596	17,380,616	22,008,726	17,302,259
Financial assets held for trading	100,307	N/A	-	-
Financial investments measured at amortised cost	199,700,115	N/A	199,700,114	N/A
Other debt investments	1,467,544	N/A	923,350	N/A
Available-for-sale financial assets	N/A	839,422	N/A	583,928
Held-to-maturity investments	N/A	203,219,062	N/A	203,219,062
Total	223,412,562	221,439,100	222,632,190	221,105,249

2 Collaterals accepted as securities for assets

The Group conducts resale agreements and bonds lending under customary terms of placements and holds collaterals for these transactions. As at the end of each of the Relevant Periods, the Group did not hold any resale agreement or bonds lending that collaterals were permitted to sell or re-pledge in the absence of the counterparty's default on the agreements.

XI. Related Parties and Transactions

1 The change of proportion of shares of the Group held by the shareholders during the relevant periods

Company name	Proportion of the Bank held by the company	
	31 December 2019	31 December 2018
Shanghai Lianhe Investment Co., Ltd. ("Lianhe Investment")	13.84%	13.38%
Shanghai International Port (Group) Co., Ltd. ("SIPG")	8.30%	7.34%
Santander Central Hispano S.A. ("Santander")	6.54%	6.50%
TCL Corporation Co.,Ltd. ("TCL")	5.14%	4.99%
China Jianyin Investment Co., Ltd.	4.84%	4.84%
China Shipbuilding International Trading Co.,Ltd.	4.08%	4.08%
Shanghai Commercial Bank Limited	3.00%	3.00%
Shanghai Huangpu District State-owned Assets Corporation	1.94%	1.94%
Shanghai Luwan Financial Investment Company	1.06%	1.06%

In addition to the requirements of the CASs, and Administrative Procedures on the Information Disclosures of Listed Companies, the major shareholders are also identified in accordance with the Provisional Measures on Administration of Equities of Commercial Banks issued by the CBRC on 5 January 2018.

In accordance with the Provisional Measures on Administration of Equities of Commercial Banks, major shareholder of a commercial bank shall mean a shareholder who holds or controls 5% or more of the shares or voting rights of a commercial bank, or who holds less than 5% of the total capital or total shares but exerts significant influence over business management of the commercial bank. Significant influence shall include but not be limited to, appointing directors, supervisors or senior management personnel to a commercial bank, exerting influence over the commercial bank's financial and business management decision-making through an agreement or any other method.

2 Major shareholders of the Group

Company name	Legal representative	Place of registration	Registered capital as at 31 December 2019
Lianhe Investment	Qin Jian	Shanghai	RMB10 billion
SIPG	Gu Jinshan	Shanghai	RMB23.174 billion
Santander	Ana Botin	Santander	EUR8.1 billion
TCL Corporation Co.,Ltd.	Li Dongsheng	Guangdong	RMB13.528 billion
China Jianyin Investment Co., Ltd.	Dong Shi	Beijing	RMB20.692 billion
China Shipbuilding International Trading Co.,Ltd.	Li Hongtao	Shanghai	RMB4.39 billion
Shanghai Commercial Bank Limited	Guo Xizh	Hong Kong	HKD2 billion
Shanghai Huangpu District State-owned Assets Corporation	Huang Jianrong	Shanghai	RMB1.505 billion
Shanghai Luwan Financial Investment Company	Kong Guanghui	Shanghai	RMB0.15 billion

The details of the main business are as follows:

Lianhe Investment: Mainly engaged in the investment business of important infrastructure construction projects, technological transformation of enterprises, high-tech, financial services, agriculture, real estate and other industrial development projects, consulting agency, agent sales agency, information research and talent training.

SIPG: Mainly engaged in domestic and international cargo (including containers) loading and unloading (including barge), storage, transit and surface transport; container deconsolidation, cleaning, repairing, manufacturing and leasing; international shipping, warehousing, storage, processing, distribution and logistics information management; provide international passengers with waiting vessels and ship facilities and services; ship diversion, towing, shipping agents, freight forwarders; ship port services such as supply of fuel materials, supplies of living goods; port facilities lease; port information, technical consulting services, port terminal construction, management and operation; wholesale, import and export of port lifting equipment, handling machinery, electromechanical equipment and accessories.

Santander: Mainly engaged in consumer credit, mortgage, lease financing, factoring, mutual funds, pension funds, insurance, commercial credit, investment banking services, structured financing and mergers and acquisitions consulting business.

TCL: Mainly engaged in research, development, production, sales of electronic products and communication equipment, new optoelectronics, liquid crystal display devices, hardware & electric material, VCD, DVD video player, building materials and general machinery, electronic computer technology services, freight storage (excluding hazardous chemicals), film equipment maintenance, recycling of waste materials, import and export of goods and technology, venture capital business and venture capital consulting, entrusted to manage the venture capital of other venture capital institutions, provide entrepreneurial management services for start-up enterprises, participate in the initiation of venture capital institutions and investment management consultancy, real estate leasing, provision of information system services, provision of conference services, provision of electronic product technology development services, development and sales of software products, patent transfer, agent declaration services, provision of consultancy services, payment settlement.

China Jianyin Investment Co., Ltd.: Mainly engaged in investment and investment management, asset management and disposal, corporate management, real estate leasing, consulting.

China Shipbuilding International Trading Co.,Ltd.: Mainly engaged in self-operated and agent import and export business of various commodities and technologies, processing with imported materials and custom manufacturing with materials, designs or samples supplied and compensation trade, operating counter trade and entrepot trade; domestic trade.

Shanghai Commercial Bank Limited: Mainly engaged in providing banking and banking related financial services in Hong Kong, the United States, the United Kingdom and China.

Shanghai Huangpu District State-owned Assets Corporation: Mainly engaged in asset investment, holding, asset adjustment and shareholding leasing. Authorization and entrustment of state-owned assets, technical advice and technical services of financial investment information.

Shanghai Luwan Financial Investment Company: Mainly engaged in providing financial investment consulting, metal materials, building materials, photographic equipment, and daily necessities.

3 Transactions with related parties

The Group's material transactions and balances with its related parties are summarised as follows:

	Lianhe Investment and its related parties	SIPG and its related parties	Santander and its related parties	TCL and its related parties	Other major shareholders and their related parties	Other related corporations	Related natural person	Total	Ratio to similar transactions
Transactions with related parties during the year ended 31 December 2019:									
Interest income	22,560	24,928	46,496	-	31,535	186,170	5,090	316,779	0.40%
Interest expense	(25,050)	(20,264)	(354)	(3)	(57,937)	(128,866)	(1,226)	(233,700)	0.48%
Fee and commission income	707	9	1	4	19,660	2,878	7	23,266	0.31%
Fee and commission expense	(10,841)	-	-	-	-	(3,689)	-	(14,530)	1.73%
Net investment gains	-	14,603	-	-	15,715	108,774	-	139,092	1.26%
Net (losses) / gains from changes in fair value	-	(4,959)	-	-	9,690	(153,229)	-	(148,498)	10.89%
Net foreign exchange gains	-	5,637	7,172	-	-	1,097	-	13,906	4.53%
Other operating income	34	-	-	-	1	51	4	90	0.08%
Other comprehensive income, net of tax	-	-	-	-	803	(66,658)	-	(65,855)	4.67%
Payment of preferred stock dividends	-	(52,000)	-	-	-	(52,000)	-	(104,000)	10.00%
Balances with related parties as at 31 December 2019:									
Deposit with banks and other financial institutions	-	-	4,074	-	964,351	30,674	-	999,099	6.86%
Placements with banks and other financial institutions	-	-	1,444,522	-	-	1,705,250	-	3,149,772	1.85%
Derivative financial assets	-	26,280	89,451	-	5,719	1,072,876	-	1,194,326	7.26%
Loans and advances to customers	656,874	500,683	-	-	379,515	2,738,293	119,986	4,395,351	0.47%
Financial investment									
- Financial assets held for trading	-	644,286	-	-	1,005,899	2,114,309	-	3,764,494	1.18%
- Financial investments measured at amortised cost	-	-	-	-	102,131	-	-	102,131	0.02%
- Other debt investments	-	-	-	-	106,328	1,738,679	-	1,845,007	4.72%
- Investments in other equity instruments	-	-	-	-	-	484,774	-	484,774	94.06%
Long-term equity investments	-	-	-	-	-	422,778	-	422,778	100%
Other assets	-	-	-	-	-	1,365,551	-	1,365,551	9.74%
Deposits from banks and other financial institutions	-	-	(175,684)	(2)	(2,446,872)	(1,747,347)	-	(4,369,905)	1.11%
Placements from banks and other financial institutions	-	-	-	-	-	(488,608)	-	(488,608)	0.66%
Derivative financial liabilities	-	(9,966)	(83,778)	-	(1,343)	(1,237,379)	-	(1,332,466)	7.98%
Deposits from customers	(4,329,249)	(2,772,661)	-	(65)	(1,251,337)	(17,332,647)	(84,233)	(25,770,192)	2.14%
Other equity instruments	-	(1,000,000)	-	-	-	(1,000,000)	-	(2,000,000)	10.00%

	Lianhe Investment and its related parties	SIPG and its related parties	Santander and its related parties	TCL and its related parties	Other major shareholders and their related parties	Other related corporations	Related natural person	Total	Ratio to similar transactions
Significant off-balance sheet items with related parties as at 31 December 2019:									
Loan commitments	3,288,599	-	-	-	-	-	-	3,288,599	9.83%
Guarantees	106,608	800	-	-	2,604	1,432,086	-	1,542,098	2.85%
Letters of credit	259,266	-	-	-	-	549,190	-	808,456	10.85%
Loans guaranteed by related parties	271,198	500,000	-	-	279,021	125,000	-	1,175,219	0.17%
Entrusted loans	2,684,686	8,440,000	-	-	-	-	-	11,124,686	8.09%
Entrusted funds	2,708,187	8,440,000	-	-	-	-	-	11,148,187	8.11%
Bank acceptances	-	-	-	-	325,000	239,261	-	564,261	0.63%

	Lianhe Investment and its related parties	SIPG and its related parties	Santander and its related parties	TCL and its related parties	Other major shareholders and their related parties	Other related corporations	Related natural person	Total	Ratio to similar transactions
Transactions with related partiesduring the year ended 31 December 2018:									
Interest income	31,071	67,255	48,255	-	57,263	300,065	6,093	510,002	0.67%
Interest expense	(30,681)	(9,127)	(465)	(2,067)	(118,109)	(156,427)	(2,620)	(319,496)	0.70%
Interest expense	993	11	-	6	322	5,970	9	7,311	0.11%
Fee and commission expense	-	-	-	-	-	(1)	-	(1)	0.00%
Net investment gains	-	1,221	-	-	-	244,703	-	245,924	3.11%
Net gains / (losses) from changes in fair value	-	5,201	(1,499)	62	9,534	(56,265)	-	(42,967)	0.92%
Other operating income	41	1	-	-	1	156	4	203	0.21%
Other comprehensive income, net of tax	-	-	-	-	7,664	(33,835)	-	(26,171)	2.22%
Payment of preferred stock dividends	-	(52,000)	-	-	-	(52,000)	-	(104,000)	10.00%
Balances with related parties as at 31 December 2018:									
Deposit with banks and other financial institutions	-	-	2,947	-	873,808	36,521	-	913,276	6.05%
Placements with banks and other financial institutions	-	-	894,225	-	-	900,003	-	1,794,228	1.56%
Financial assets at fair value through profit or loss	-	-	-	-	-	16,028	-	16,028	0.09%
Derivative financial assets	-	79,333	-	-	585	-	-	79,918	6.46%
Interests receivable	1,127	1,046	130	-	14,128	22,046	195	38,672	0.40%
Loans and advances to customers	792,239	750,000	-	-	655,780	2,825,635	147,056	5,170,710	0.63%
Available-for-sale financial assets	-	-	-	-	296,104	8,315,145	-	8,611,249	2.14%
Held-to-maturity investments	-	-	-	-	-	195,516	-	195,516	0.06%
Long-term equity investments	-	-	-	-	-	402,120	-	402,120	100.00%

	Lianhe Investment and its related parties	SIPG and its related parties	Santander and its related parties	TCL and its related parties	Other major shareholders and their related parties	Other related corporations	Related natural person	Total	Ratio to similar transactions
Balances with related parties as at 31 December 2018:									
Other assets	-	-	-	-	-	1,191,789	-	1,191,789	10.80%
Deposits from banks and other financial institutions	-	-	(3,733)	(756)	(13,141,969)	(1,220,098)	-	(14,366,556)	3.89%
Placements from banks and other financial institutions	-	-	-	-	-	(191,424)	-	(191,424)	0.28%
Derivative financial liabilities	-	(64,013)	(1,499)	-	-	(4,138)	-	(69,650)	8.40%
Deposits from customers	(9,677,921)	(2,742,850)	(3,640)	(1,636)	(4,711,450)	(8,575,825)	(44,299)	(25,757,621)	2.47%
Interests payable	(4,250)	(8,645)	(2)	(1)	(71,687)	(28,588)	(889)	(114,062)	0.66%
Other equity instruments	-	(1,000,000)	-	-	-	(1,000,000)	-	(2,000,000)	10.00%
Significant off-balance sheet items with related parties as at 31 December 2018:									
Loan commitments	3,372,722	168,880	-	-	-	-	-	3,541,602	17.73%
Guarantees	-	800	-	-	612	798,272	-	799,684	1.33%
Letters of credit	316,423	-	-	-	-	362,182	-	678,605	9.62%
Loans guaranteed by related parties	407,836	-	-	-	30,000	-	-	437,836	0.08%
Entrusted loans	1,551,833	4,507,000	-	-	80,000	-	-	6,138,833	3.55%
Entrusted funds	1,924,399	4,507,000	-	-	-	250,000	-	6,681,399	3.86%
Bank acceptances	-	-	-	-	-	115,083	-	115,083	0.19%

The Group's transactions with related parties are conducted in accordance with normal commercial terms and normal business procedures, and its pricing principles are consistent with those of independent third parties.

The Group recognizes the related parties according to the Administrative Measures on Information Disclosure by Listed Companies issued by the CSRC, Administrative Measures on Affiliated Transactions between Commercial Banks and their Insiders or Shareholders and Provisional Measures on Administration of Equities of Commercial Banks issued by the CBRC.

The basic information of related parties and transactions under the rules of the CSRC and the CBRC, as well as the specific information of major transactions with related parties under the rules of the CBRC can be found in the Related Transactions of the body text of the 2019 annual report of the Group.

4 Transactions with key management personnel

The remuneration of key management personnel during the Relevant Periods were as follows:

	2019	2018
Remuneration of key management personnel	13,138	19,621

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Senior Management. According to China's laws and regulations, no provision was made for the bonus for these key management personnel in 2019, but the bonus that has not been made provision is not expected to have a significant impact on the financial statements of the Group and the Bank in 2019.

5 Transactions between the Bank and its subsidiaries

Significant transactions with subsidiaries:

	2019	2018
Interest income	20,420	52,587
Interest expense	(19,652)	(15,389)
Fee and commission income	2,717	3,344
Net investments income	7,841	10,809
Other operating income	3,483	669

Significant balances outstanding as at the balance sheet date:

	31 December 2019	31 December 2018
Deposits with banks and other financial institutions	50,660	50,000
Placements with banks and other financial institutions	2,096,079	756,797
Interests receivable	N/A	3,098
Other Assets	262	992
Deposits from banks and other financial institutions	(798,513)	(751,396)
Deposits from customers	(25,363)	(28,001)
Interests payable	N/A	(1,743)
Other Liabalities	(589)	(334)
Guarantees	5,696,559	3,876,654

All the intra-group transactions and intra-group balances are eliminated when preparing the consolidated financial statements.

6 Transactions with the annuity plan

Apart from the obligations for defined contributions to the Annuity Fund, no other transactions were conducted between the Group and the Annuity Fund during the Relevant Periods.

XII. Segment Reporting

The Group manages its business by business lines. The Group has presented segments reporting in a manner consistent with the way in which information is reported internally to management for the purposes of resource allocation and performance assessment. The Group defines reporting segments based on the following business operating segments:

Wholesale financial business

This segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans, deposit products, trade financing, settlement services, investment banking services, asset custody services, interbank borrowing, repurchase transactions and other interbank business, financial market business and equity investment.

Retail financial business

This segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, personal wealth management services, remittance services, securities agency and credit card services, etc.

Others

This segment represents other miscellaneous activities, none of which constitutes a separately reportable segment.

Measurement of segment assets and liabilities and segment income and expenses 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 "inter-segment 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. Segment income, expenses, assets, and liabilities are determined before intra-group balances and intra- group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the relevant accounting periods to acquire fixed assets, intangible assets and other long-term assets.

	The Group			
	2019			
	Wholesale Financial Business	Retail Financial Business	Others	Total
External net interest income	17,997,065	12,316,263	7,281	30,320,609
Inter-segment net interest income / (expense)	947,639	(947,639)	-	-
Net interest income	18,944,704	11,368,624	7,281	30,320,609
Fee and commission income	4,276,184	2,980,611	151,560	7,408,355
Fee and commission expense	(416,332)	(424,824)	-	(841,156)
Net fee and commission income	3,859,852	2,555,787	151,560	6,567,199
Other income	-	-	66,764	66,764
Net investment gains	10,900,298	-	174,870	11,075,168
Net gains from changes in fair value	1,285,254	-	77,919	1,363,173
Net foreign exchange gains	284,204	22,451	-	306,655
Other operating income	7,002	-	102,207	109,209
Losses from asset disposals	-	-	(8,485)	(8,485)
Operating income	35,281,314	13,946,862	572,116	49,800,292
Tax and surcharges	(299,760)	(169,534)	(1,662)	(470,956)
General and administrative expenses	(6,067,413)	(3,757,178)	(123,965)	(9,948,556)
Impairment losses	(11,973,663)	(4,982,243)	(193,195)	(17,149,101)
Other operating expenses	(1,263)	-	(3)	(1,266)
Operating expenses	(18,342,099)	(8,908,955)	(318,825)	(27,569,879)
Operating profit	16,939,215	5,037,907	253,291	22,230,413
Add: Non-operating income	101,447	138,843	170	240,460
Less: Non-operating expenses	(11,410)	(7,525)	(74,849)	(93,784)
Profit before tax	17,029,252	5,169,225	178,612	22,377,089
Segment assets	1,913,438,679	321,834,630	1,808,634	2,237,081,943
Segment liabilities	1,753,757,921	305,841,492	255,899	2,059,855,312
Other segment information:				
Credit commitments	185,202,722	51,442,665	-	236,645,387
Depreciation and amortization	(428,133)	(372,291)	(2,694)	(803,118)
Capital expenditure	(470,653)	(409,265)	(2,962)	(882,880)

	The Group			
	2018			
	Wholesale Financial Business	Retail Financial Business	Others	Total
External net interest income / (expense)	20,872,587	9,069,492	(5,250)	29,936,829
Inter-segment net interest income / (expense)	489,003	(489,003)	-	-
Net interest income / (expense)	21,361,590	8,580,489	(5,250)	29,936,829
Fee and commission income	3,967,451	2,594,290	182,754	6,744,495
Fee and commission expense	(266,599)	(498,357)	-	(764,956)
Net fee and commission income	3,700,852	2,095,933	182,754	5,979,539
Other income	-	-	42,998	42,998
Net investment gains	7,812,419	-	93,714	7,906,133
Net gains / (losses) from changes in fair value	4,687,872	-	(35,390)	4,652,482
Net foreign exchange (losses) / gains	(4,733,263)	14,544	-	(4,718,719)
Other operating income	8,939	-	86,488	95,427
Losses from asset disposals	-	-	(6,867)	(6,867)
Operating income	32,838,409	10,690,966	358,447	43,887,822
Tax and surcharges	(269,497)	(175,891)	(1,340)	(446,728)
General and administrative expenses	(5,482,580)	(3,422,169)	(101,642)	(9,006,391)
Impairment losses	(12,364,649)	(2,954,962)	(12,290)	(15,331,901)
Other operating expenses	(18,481)	-	(2)	(18,483)
Operating expenses	(18,135,207)	(6,553,022)	(115,274)	(24,803,503)
Operating profit	14,703,202	4,137,944	243,173	19,084,319
Add: Non-operating income	64,916	101,473	32,648	199,037
Less: Non-operating expenses	(9,740)	(2,580)	(19,164)	(31,484)
Profit before tax	14,758,378	4,236,837	256,657	19,251,872
Segment assets	1,745,832,186	280,129,355	1,810,858	2,027,772,399
Segment liabilities	1,626,692,312	238,932,075	379,404	1,866,003,791
Other segment information:				
Credit commitments	152,392,765	32,259,199	-	184,651,964
Depreciation and amortization	(396,122)	(344,537)	(3,507)	(744,166)
Capital expenditure	(1,224,276)	(1,064,847)	(10,839)	(2,299,962)

XIII. Risk Management

The Group mainly has exposure to the following risks from financial instruments:

- credit risk
- market risk
- liquidity risk
- operational risk

This note presents information about the Group's exposure to each of the above risks and its changes during the year, as well as the Group's objectives, policies and processes for measuring and managing risks, and the Group's capital management.

Risk management framework

The Board of Directors assumes ultimate responsibility for risk management and is responsible for determining overall risk management strategies and making significant decisions. The Board of Directors has established the Risk Management and Customers' Right and Interest Protection Committee, the Related Transaction Control Committee and the Audit Committee, which are primarily responsible for risk management. The Board of Supervisors is responsible for supervising and inspecting the performance of the risk management responsibilities of the Board of Directors and senior management. Under the authority of the Board of Supervisors, a Supervisory committee shall supervise and evaluate the performance of the risk management responsibilities and the effect of overall risk management of the Board of Directors and senior management. Senior management is the highest executive level of the risk management, responsible for promoting the strategy, policies and measures of risk management in the whole bank, realizing the comprehensive coverage and specialization of risk management, assessing the overall risk and all kinds of important risk management status and reporting to the Board of Directors. There are Risk management committee, Asset and Liability Management committee and other professional committees to organize, coordinate, review, make decisions and supervise various risk management work.

To identify, evaluate, monitor, control and report the risks, the Group has designed a comprehensive risk management framework and procedures. The Vice President in charge of risk management is responsible for overall risk management. The Group's risk management policies and systems are regularly reviewed and revised to reflect changes in market conditions, products and services.

The Group defined the "three lines of defense" management system, which include "first line of defense" directly managed by the Head Office and Branch business management Department, "second lines of defense" remanaged by the Risk Internal Control Department and "the third line of defense" resupervised by the Audit Supervision Department. Through the positioning of "three lines of defense", promote the first line of defense to carry out self-risk management, improve the capability of refined and differentiated risk management of the second lines of defense, and strengthen the vertical audit management of the thrid lines of defense.

The Group sets up a comprehensive risk management system and basically realized the full coverage of risk management categories and management scope. The risk management category has covered the major risks of the company's operation, such as credit, market, operation, liquidity, law, reputation, strategy, information technology, money laundering and country risk. At the same time, the Group implements consolidated risk management, and integrates the subsidiaries at the group level into the unified risk management framework. The Group sets up various risk management and control processes and mechanisms, including risk identification, assessment, measurement, monitoring, reporting, release and control. The Group implements full process risk management on the credit business.

1 Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to commercial bank. It arises primarily from the Group's credit businesses and treasury businesses such as investment in debt securities.

The Board of Directors, the Board of Supervisors and senior management of the group fully understand the credit risks in various businesses and supervise the organization on the identification, measurement, control and release of credit risk. The Board of Directors and underling Risk Management and Consumer Protection Committee established credit risk management strategies, review credit risk preferences and significant credit risk management policies and procedures and supervise senior management to take necessary measures to identify, measure, monitor and control credit risks. The Board of Supervisors effectively supervises on the Board of Directors and senior management. Senior management and underlying Risk Management Committee continuously improved credit risk management framework, establish credit risk management policies and procedures, make risk limits according to the risk preference reviewed by the Board of Directors, make execution and accountability policies, supervise risk preference, risk limits, strategy and procedure execution, assess credit risk status and report to the Board of Directors routinely.

Credit business

To identify, assess, monitor and manage credit risk, the Group has established a reporting structure, credit policies and procedures of credit risk management, improves risk management system, improves its credit approval process, reinforces its credit risk management through its processes, clarifies functions and responsibilities of the credit approval cycle, establish the credit policies, management framework, upgrades risk management tools and risk management systems, establishes credit risk monitoring, warning and withdrawal management systems, implement pledge and other risk mitigation measures, conducts credit business risk management continuously in accordance with relevant rules, regulations and monetary policies in the PRC and the Group's business strategy.

Customer relationship managers from the relevant business departments will conduct an independent and prudent pre-disbursement investigation on the application for the loan submitted by customers. Pre-loan investigations mainly involve collecting customer information, reviewing credit application materials and preparing a credit investigation report by customer relationship managers.

The loan reviewers of the Group conduct the review primarily on the basis of the investigation report submitted by the customer relationship managers, as well as the knowledge they obtained through indirect channels about the customers, their upstream and downstream enterprise and related industries. After the loan reviewers conduct a thorough examination, they may issue a review report which includes an evaluation of the credit risk involved in the application.

According to authorised credit approval limit, credit applications shall be approved by authorised officers or loan approval committees as appropriate. These authorised officers and members of loan approval committees are generally selected from credit approval specialists of the Group.

In general, the credit applications which are approved by the relevant business departments are subject to re-affirmation by the Credit Review Department. The Credit Review Department reviews the procedural compliance and key risk analysis of each credit approval report in order or reach a decision on whether or not to re-affirm such credit approval.

The Group has established a series of policies to mitigate credit risks through various methods. To obtain the collateral, the deposit and the guarantee of the company or individual is one of the most important methods for the Group to control credit risk. The specific pledges that can be accepted by the Group include cash and cash equivalents, securities, real estate, land use rights, machinery and equipment, transportations, charging rights, spot commodities, etc.

For loans secured with collateral, the Group conducts collateral appraisals prior to the loan approval and monitors any subsequent changes in the fair value. With respect to a third-party guarantor, the Group assess the guarantor's financial situation, credit history and ability to meet its obligations in order to determine the appropriate guarantee amount. To mitigate risks, where appropriate, the Group may require customers to provide collateral and guarantees.

Before signing credit agreement, the loan disbursement officer of the Group shall review the credit agreement, the status of compliance of pre-conditions for loan disbursement, the collateral arrangement and other loan disbursement procedures. The loan disbursement officers are independent from customer relationship managers who are preparing credit investigation report and authorised officers for credit approval procedures.

The Group employs a variety of methods for conducting post-disbursement monitoring. By conducting scheduled or non-scheduled on-site or off-site inspections, the Group monitors the corporate customers' business operations and financial situation, individual customers' income status, the collateral and the guarantor, and promptly issues risk warnings.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. In compliance with relevant regulation and rules, the Group conducts credit risk grade review on a regular basis. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are non-performing loans. In general, loans are considered to be non-performing when one or more events demonstrate that there is objective evidence that losses will be incurred.

The core definitions of the five-tier grading 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 collateral or guarantees are invoked.

Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.

Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Treasury business

The Group's treasury operations involve investments in PRC government bonds, other government bonds, financial institution bonds, corporate bonds, inter-bank money market transactions and bank notes transfer discount, etc.

The Group manages credit risk management for treasury operations in accordance with the credit risk management policies, procedures and systems. The Group conducts credit risk management in respect of the treasury operations primarily through the management of credit limits for counterparties and assigns a total credit limit for domestic and foreign financial institutions and sets sub-limits for various business lines. In addition, the Financial Markets Department works closely with credit management department, risk management department and other departments to form an integrated risk monitoring system for treasury operations.

Measurement of Expected Credit Loss ("ECL")

According to the new standard, the Group divided the financial instruments that require ECL provision recognition into three stages and applies the ECL model to calculate loss allowances for its debt financial instruments measured at amortised cost or at fair value through other comprehensive income, as well as its loan commitments and financial guarantee contracts.

Financial instrument risk stage division

The Group applies a 'three-stage model' for measuring expected credit loss forfinancial instruments based on changes in credit quality since initial recognition.

The three stages are defined as follows:

Stage 1: Financial instruments without significant increase in credit risk since initial recognition. For these assets, expected credit losses are recognised for the following 12 months.

Stage 2: For financial instruments with significant increase in credit risk since initial recognition, expected credit losses are recognised for the remaining lifetime if there is no objective evidence of impairment.

Stage 3: For financial assets with objective evidence of impairment as at the balance sheet date, expected credit losses are recognised for the remaining lifetime.

Judgment of significant increase in credit risk

The assessment of significant increase since initial recognition in the credit risk is performed at least on a quarterly basis for financial instruments held by the Group. The Group takes into consideration all reasonable and supportable information (including forward-looking information) that reflects significantly change in credit risk for the purposes of classifying financial instruments. The main considerations are regulatory and operating environment, internal and external credit risk gradings, debt-servicing capacity, operating capabilities and repayment records, etc.

The Group compares the risk of default of a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics as at the end of the reporting period and its risk of default at the date of initial application to determine changes in the risk of default during the lifetime of a financial instrument or a portfolio of financial instruments. In determining whether credit risk of a financial instrument has increased significantly since initial recognition, the Group considers factors indicating whether the probability of default has risen sharply, whether the financial instrument has been past due for more than 30 days, whether the risk classification has been downgraded to assess deterioration.

Definition of credit-impaired financial assets

In order to evaluate whether a financial asset is impaired, the Group considers the following factors:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- The creditor, for economic or contractual reasons relating to the debtor's financial difficulty, grants the debtor a concession that the Group would not otherwise consider;
- The debtor will probably enter bankruptcy or another financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties faced by the issuer or debtor;
- The purchase or origination of a financial asset at a significant discount that reflects the fact of credit losses;
- The principal, advance or interest of a financial asset or bonds is overdue for more than 90 days;
- Other objective evidence of financial asset impairment.

The credit impairment of a financial asset may be caused by the combined effect of multiple events rather than any single event.

Parameters for ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group recognised 12-month or lifetime ECL allowance by financial instrument. Expected credit losses are the product of Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), which are defined as follows:

- Probability of default (PD): represents the likelihood of a borrower to default on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. The PD is determined based on the adjusted results of the internal rating-based model, with forward-looking information incorporated, to reflect the borrower's point-in-time probability of default under the current macroeconomic environment;

- Loss Given Default (LGD): is expressed as a percentage loss per unit of EAD. LGD varies by types of product and availability of collateral etc.;

- Exposure at Default (EAD): refers to the total amount of on and off-balance sheet exposures in the event of default and is determined based on principal, interest, off-balance sheet risk conversion factor etc., and may vary by product types.

Forward-looking information incorporated in the ECL

The judgment of significant increase in credit risk and calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio; the forecasts of these economic variables are provided periodically and the most relevant variables are picked and estimated by the Group. The Group mainly uses regressive analysis to determine the relationship among these economic indexes, probability of default and the loss given default. External information used includes macroeconomic data, and forecasting information released by the government or regulatory, such as: Gross Domestic Product (GDP), Broad Monetary (M2) and Purchase Management Index (PMI), etc.

When calculating the ECL in corresponding situations, the Group combines macro-statistical analysis and expert judgment results to set corresponding economic forecast scenarios (higher, flat, and lower) and corresponding measurement coefficients.

During the reporting period, there has been no significant change in the estimation or key assumptions of the ECL measurement parameters.

Pledged Assets Held

As at 31 December 2019, impaired loans and advances to customers of the Group and the Bank are 13.36 billion and 13.03 billion respectively (31 December 2018: The Group and the bank were 9.71 billion and 9.48 billion respectively). Among them, the collaterals of the Group and the Bank covering such loans are RMB 4.73 billion and RMB 4.72 billion respectively (31 December 2018: The Group and the bank were 4.32 billion and 4.32 billion respectively).

(1) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in Note VIII.

(2) Financial assets analysed by credit quality

As at 31 December 2019, the Group's financial asset risk stages are as follows:

	As at 31 December 2019							
	Gross carrying amount				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortized cost								
Cash and deposits with central bank	140,256,925	-	-	140,256,925	(1)	-	-	(1)
Deposits with banks and other financial institutions	14,620,068	-	-	14,620,068	(61,525)	-	-	(61,525)
Placements with banks and other financial institutions	170,579,145	-	-	170,579,145	(480,077)	-	-	(480,077)

	As at 31 December 2019							
	Gross carrying amount				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortized cost								
Financial assets held under resale agreements	1,030,160	1,288,400	-	2,318,560	(2,416)	(49,089)	-	(51,505)
Loans and advances to customers	802,238,495	93,602,465	13,338,897	909,179,857	(15,478,393)	(8,610,442)	(10,901,561)	(34,990,396)
Financial investments	554,646,507	7,801,507	3,418,420	565,866,434	(1,999,708)	(828,297)	(2,728,895)	(5,556,900)
Sub-total	**1,683,371,300**	**102,692,372**	**16,757,317**	**1,802,820,989**	**(18,022,120)**	**(9,487,828)**	**(13,630,456)**	**(41,140,404)**
Financial assets measured at FVOCI								
Loans and advances to customers	66,524,660	168,236	23,157	66,716,053	(2,919,215)	(8,130)	(21,999)	(2,949,344)
Financial investments	39,047,966	-	13,498	39,061,464	(82,916)	-	(246,739)	(329,655)
Sub-total	**105,572,626**	**168,236**	**36,655**	**105,777,517**	**(3,002,131)**	**(8,130)**	**(268,738)**	**(3,278,999)**
Credit Commitments	231,557,132	5,048,011	40,244	236,645,387	(4,704,166)	(364,425)	(29,436)	(5,098,027)
Total	**2,020,501,058**	**107,908,619**	**16,834,216**	**2,145,243,893**	**(25,728,417)**	**(9,860,383)**	**(13,928,630)**	**(49,517,430)**

Note: Simplified method was adopted to other financial assets measured at amortized cost when measure impairment provision, thus the classification of stages is not applicable.

Financial assets analysed by credit quality as at 31 December 2018 are summarised as follows:

	As at 31 December 2018				
	Deposits / placements with banks and other financial institutions	Financial assets held under resale agreements	Loans and advances	Investments (note (i))	Others (note (ii))
Impaired					
Individually assessed gross amount	-	-	8,018,557	3,432,720	-
Provision for impairment losses	-	-	(5,004,967)	(2,081,471)	-
Net amount	**-**	**-**	**3,013,590**	**1,351,249**	-
Collectively assessed gross amount	-	-	1,693,140	-	-
Provision for impairment losses	-	-	(1,430,128)	-	-
Net amount	**-**	**-**	**263,012**	**-**	**-**
Overdue but not impaired					
Less than 3 months (inclusive)	-	-	5,874,009	900,000	-
Provision for impairment losses	-	-	(1,588,844)	(122,900)	-
Net amount	**-**	**-**	**4,285,165**	**777,100**	**-**
Neither overdue nor impaired gross amount	130,471,005	36,599,042	835,109,949	683,027,754	16,926,408
Provision for impairment losses	(36,223)	(230,418)	(24,311,520)	(5,645,994)	(126,052)
Net amount	**130,434,782**	**36,368,624**	**810,798,429**	**677,381,760**	**16,800,356**
Carrying amount	**130,434,782**	**36,368,624**	**818,360,196**	**679,510,109**	**16,800,356**

(i) Investments comprise transactional debt instruments at fair value through profit or loss, debt instruments investment of available-for-sale financial assets, held-to-maturity investments and investment securities classified as receivables.

(ii) Others comprise financial assets such as derivative financial assets, interest receivables and other receivables.

(3) Credit ratings of receivables from inter-banks

Receivables from inter-banks include deposits and placements with banks and other financial institutions, and financial assets held under resale agreements. Receivables from inter-banks neither overdue nor credit-impaired / neither overdue nor impaired are rated with reference to major rating agencies recognised by the PBOC.

	The Group	
	31 December 2019	31 December 2018
Neither overdue nor credit-impaired / neither overdue nor impaired		
- A to AAA	117,432,403	99,433,511
- Unrated	69,408,073	67,636,536
Sub-total	186,840,476	167,070,047
Accrued interest	677,297	N/A
Provision for impairment losses	(593,107)	(266,641)
Carrying amount	186,924,666	166,803,406

(4) Credit ratings of debt instruments

The Group adopts a credit rating approach to manage the credit risk of the debt instruments portfolio. Debt instruments are rated with reference to major rating agencies generally recognised by the PBOC. The carrying amounts of debt instruments investments analysed by the rating agency designations as at the balance sheet date are as follows:

	The Group	
	31 December 2019	31 December 2018
Credit-impaired / impaired items		
- C	133,498	275,437
- Unrated	3,296,823	3,157,283
Sub-total	3,430,321	3,432,720
Provision for impairment losses	(2,728,895)	(2,081,471)
Net amount	701,426	1,351,249
Overdue but not credit-impaired / overdue but not impaired items		
- Unrated	350,000	900,000
Provision for impairment losses	(24,500)	(122,900)
Net amount	325,500	777,100
Neither overdue nor credit-impaired / neither overdue nor impaired items		
- AAA	285,186,818	226,914,172
- AA- to AA+	23,951,519	12,261,433
- A- to A+	12,388,456	11,656,757
- Lower than A	11,959,894	11,035,914
- Unrated	366,031,785	421,159,478
Sub-total	699,518,472	683,027,754
Provision for impairment losses	(2,803,505)	(5,645,994)
Net amount	696,714,967	677,381,760
Accrued interest	6,864,829	N/A
Carrying amount	704,606,722	679,510,109

(5) Credit risk concentrations of financial investments

Geographic concentration

As at the balance sheet date, the financial assets and credit commitments held by the Group are mainly concentrated in mainland China. For the geographical concentration of loans and advances, see Note V. 8 (4).

Industry concentration

The industry concentration of loans and advances issued by the Group as at the balance sheet date is detailed in Note V. 8 (3).

2 Market risk

Market risk is the risk of loss, in respect of commercial banks' on and off balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices. The Group's market risk mainly derives from assets and liabilities operating in the market and interest rate risk and foreign exchange rate risk of its products.

The market risk management of the Group oversees the whole process of identifying, measuring, monitoring and controlling market risk. The Group established the market risk management framework in accordance with the requirements of the CBRC. The Board of Directors and underlying Risk Management and Consumer Rights Protection Committee take the ultimate responsibility for monitoring market risk management and are responsible for reviewing and approving the overall market risk management strategy, policies, procedures and risk preference. The Board of Supervisors is responsible for supervises the performance of market risk management of the Board of Directors and senior management. Senior management and underlying Asset and Liability Management Committees, Risk Management and Consumer Rights Protection committees are authorized by the Board of Directors to be responsible for the construction of market risk management systems; establish a clear division of market risk management organization structure, authority structure and responsibility mechanism; review the specific system of market risk management; establish a mechanism to regularly review and supervise the implementation of market risk management policies, procedures and operating procedures, and timely acquire understanding of status and management of market risk. The Risk Management Department is responsible for the construction of the Group 's market risk management system, establishing market risk preference and risk limits and submitting them to the Board of Directors and senior management for approval; monitoring the implementation of market risk limits, and submitting market risk management reports to the Board of Directors and senior management. The Planning and Finance Department, the Financial Markets Department, the Investment Banking Department and other departments implement market risk management strategies within their responsibilities.

The Group is primarily exposed to structural interest rate risk arising from interest generating commercial banking assets and interest bearing commercial banking liabilities. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities. The Group manages this risk through measures such as the Value-at-risk analysis ("VaR"), interest rate gap analysis, sensitivity analysis, etc.

The Group's foreign exchange risks mainly comprises risks arising from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and foreign currency risk arising from the currency mismatch of loans and advances to customers and deposits from customers. The Group's major businesses are denominated in RMB, and the foreign currency exposure is not significant. The Group manages the foreign currency risk mainly by closely monitoring the limit of the currency exposures.

The Group is also exposed to market risk from its customer driven derivatives transactions and mitigates this risk by entering into back-to-back transactions with banks and other financial institutions. The Group determined that the market risk arising from stock prices for its investment portfolios is minimal.

The Group separately monitors the market risk of its trading portfolios and banking portfolios. The Group identifies, measures and manages the market risk by using various risk monitoring tools including the Value-at-risk ("VaR") analysis, duration analysis, gap analysis, position analysis, sensitivity analysis, scenarios analysis and stress testing. The Group has established a market risk limits system based mainly on position indicators, interest sensitivity and stop-losses indicators, and monitors the application of these risk limits. By undergoing inspecting procedures on new products and complex businesses, the Group ensures that market risk of new businesses be identified and assessed as early as possible.

(1) VaR analysis of trading portfolios

Trading portfolios include exchange rate, interest rate derivatives and precious metals as well as trading securities. The historical simulation model for the VaR analysis is a major tool used by the Group to measure and monitor the market risk of its trading portfolios.

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Group used a 99% level of confidence (therefore no more than 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR of interest rates, foreign exchange rates and commodity prices of trading portfolios. The holding period is one day.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

- A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used there is 1 percent probability that losses could exceed the VaR;

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and

- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The total VaR of the Group's trading transactions during the years and as at the balance sheet date are summarised as below:

	The Group			
	As at 31 December	Average	Maximum	Minimum
2019	77,490	80,042	125,769	24,212
2018	27,052	38,942	65,084	25,129

As a supplement to VaR analysis, stressing test is performed based on the characteristics of trading portfolios to simulate and estimate losses in adverse and exceptional market conditions. The Group sets stress testing limits, continuously adjusts and enhances the scenarios for stress testing by taking into account financial market fluctuations in order to capture the potential impact of market price fluctuations and volatility on trading portfolios, enhancing the Group's market risk management capabilities.

(2) Interest rate risk exposure

Interest rate risk is the likelihood of a loss to returns and market value of financial instruments and overall position that may arise from adverse changes in the market interest rate and maturity mismatch. The Group predicts trends of interest rate by studying various macroeconomic indicators, and predicts future funding movements and trends within the Group by referring to the Group's funding costs, capital adequacy ratios, growth of loans and deposits and other factors, so as to assess the interest rate risk taking capacity of the Group.

The Group mainly manages interest rate risks through structuring and adjusting its asset portfolios. Asset portfolios aim at mitigating risks and improve profitability by diversification of assets.

The interest rate risk mainly represents risk arising from interest rate policy changes and the mismatch of interest-sensitive assets and liabilities. Interest rate risk management measures of the Group mainly include:

(i) Forecast interest rate trend – the Group closely reviews the interest rate policies to identify the interest rate risks in order to justify interest rate risk limits and the adjust the risk exposure;

(ii) Set up risk management indicators to manage investment transactions, which is followed by regular reassessment;

(iii) Adjust investment portfolio and financing structure in response to market expectations;

(iv) Establish RMB deposit and loan pricing authorisation system; and

(v) Promote assets and liabilities management and internal transfer pricing system and manage interest rate risk exposure by various tools on an integrated basis.

The following tables indicate the financial assets and financial liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier.

	The Group					
	As at 31 December 2019					
	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Financial assets						
Cash and deposits with central bank	2,187,795	138,069,129	-	-	-	140,256,924
Deposits and placements with banks and other financial institutions	991,248	85,984,401	73,513,718	24,168,244	-	184,657,611
Financial assets held under resale agreements	130	2,266,925	-	-	-	2,267,055
Loans and advances to customers (Note (i))	3,706,345	375,731,702	424,006,791	112,275,753	25,500,036	941,220,627
Financial investments (Note (ii))	220,199,824	65,770,043	139,089,261	369,915,425	122,967,164	917,941,717
Other financial assets	25,850,767	-	-	-	-	25,850,767
Total financial assets	252,936,109	667,822,200	636,609,770	506,359,422	148,467,200	2,212,194,701
Financial liabilities						
Borrowings from central bank	(1,011,724)	(335,000)	(91,835,000)	-	-	(93,181,724)
Deposits and placements from banks and other financial institutions	(2,194,255)	(339,536,882)	(127,051,386)	-	-	(468,782,523)
Financial liabilities at FVTPL	(300,120)	(100,307)	-	-	-	(400,427)
Financial assets sold under repurchase agreements	(28,292)	(60,414,996)	(2,906,377)	-	-	(63,349,665)
Deposits from customers	(17,480,140)	(654,705,664)	(282,418,224)	(248,947,524)	-	(1,203,551,552)
Debt securities issued	(536,633)	(122,484,197)	(29,231,480)	(5,964,066)	(32,496,006)	(190,712,382)
Other financial liabilities	(22,110,748)	-	-	-	-	(22,110,748)
Total financial liabilities	(43,661,912)	(1,177,577,046)	(533,442,467)	(254,911,590)	(32,496,006)	(2,042,089,021)
Total	209,274,197	(509,754,846)	103,167,303	251,447,832	115,971,194	170,105,680

	The Group					
	As at 31 December 2018					
	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Financial assets						
Cash and deposits with central bank	2,260,057	142,845,718	-	-	-	145,105,775
Deposits and placements with banks and other financial institutions	459,399	55,409,560	52,933,898	21,631,925	-	130,434,782
Financial assets held under resale agreements	-	36,368,624	-	-	-	2,267,055
Loans and advances to customers (Note (i))	-	518,516,730	226,277,025	68,180,175	5,386,266	818,360,196
Investments (Note (iii))	179,551,853	131,852,766	140,649,855	304,763,146	102,244,342	859,061,962
Other financial assets	16,800,356	-	-	-	-	16,800,356
Total financial assets	199,071,665	884,993,398	419,860,778	394,575,246	107,630,608	2,006,131,695

	The Group					
	As at 31 December 2018					
	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Financial liabilities						
Borrowings from central bank	-	(17,500,000)	(85,442,000)	-	-	(102,942,000)
Deposits and placements from banks and other financial institutions	-	(326,522,920)	(110,781,568)	-	-	(437,304,488)
Financial liabilities at FVTPL	(7,168)	-	-	-	-	(7,168)
Financial assets sold under repurchase agreements	-	(59,422,701)	(1,728,557)	-	-	(61,151,258)
Deposits from customers	-	(623,607,813)	(235,759,241)	(177,622,551)	(5,500,000)	(1,042,489,605)
Debt securities issued	-	(119,047,319)	(51,704,107)	(6,131,368)	(12,492,736)	(189,375,530)
Other financial liabilities	(24,155,723)	-	-	-	-	(24,155,723)
Total financial liabilities	(24,162,891)	(1,146,100,753)	(485,415,473)	(183,753,919)	(17,992,736)	(1,857,425,772)
Total	174,908,774	(261,107,355)	(65,554,695)	210,821,327	89,637,872	148,705,923

(i) For loans and advances to customers, the category “Within three months” includes overdue amounts (net of provision for impairment losses) of RMB5,767 million as at 31 December 2019 (31 December 2018: RMB6,909 million). Overdue loans are loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more.

(ii) Financial investments comprise financial assets held for trading, debt investments, other debt investments, and investments in other equity instruments. These investments that are mature within three month include RMB1,029 million overdue (net of provision for impairment losses) as at 31 December 2019.

(iii) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment securities classified as receivables. These investments that are mature within three month include RMB1,777 million overdue (net of provision for impairment losses) as at 31 December 2018.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group’s net interest income and equity. The following table sets forth the effect on the Group’s net interest income and equity from possible and reasonable interest rate fluctuations with an assumption that all other variables held constant. The effect on net interest income refers to the effect of certain interest rate changes on the net interest income generated by financial assets and liabilities that are held at the end of the year and whose interest rate are expected to reprice within one year. The effect on the equity refers to the effect of fair value changes arising from revaluation of fixed rate other debt investments / available for sale financial assets held at year end on equity as a result of changes in interest rates.

	The Group	
	Sensitivity of net interest income	
	31 December 2019	31 December 2018
Change in interest rate (basis points)		
+100	(1,519,936)	(1,392,848)
-100	1,519,936	1,392,848
	Sensitivity of equity	
	31 December 2019	31 December 2018
Change in interest rate (basis points)		
+100	(449,980)	(476,558)
-100	454,659	494,983

This sensitivity analysis is based on a static interest rate risk profile of the assets and liabilities. The analysis measures only the impact of changes in interest rates within a year, as reflected by effect on annualised net interest income and equity from the repricing of the Group's assets and liabilities within a year. The analysis is based on the following assumptions:

(i) changes in business after balance sheet date is not taken into account, the analysis is based on the static gap at the balance sheet date;

(ii) all assets and liabilities that reprice or are due within one year will reprice or are due at the beginning of the respective periods;

(iii) the interest rates of deposits with central bank and demand deposits from customers remain unchanged;

(iv) there is a parallel shift in the yield curve due to change in interest rates;

(v) there are no other changes to the assets or liabilities portfolio; and

(vi) impact from interest rate movement on customers' activities, market prices and off-balance sheet items are not considered.

(3) Foreign currency risk

Foreign currency rate risk mainly includes currency risk arising from foreign exchange self-operated bonds, foreign exchange deposits and placements and other foreign exchange transactions, as well as currency risk arising from currency mismatch of deposits and loans.

The Group's business transactions are mainly denominated in RMB. Some transactions involve US dollars, HK dollars or Euros, as well as a few other currencies. The Group's exchange rate risk comprises risk arising from foreign currency exposures originated from daily treasury businesses and loans and advances to customers, balances with financial institutions, investments and deposits from customers held by the Group which are not denominated in RMB.

The exchange rate risk of the trading book includes the risks arising from foreign currency transactions on behalf of customers and the corresponding back-to-back transactions, as well as proprietary short-term foreign currency deals. The Group manages the exchange rate risk mainly by imposing limits on the transactions and sensitivity (including the exposure limit and stop loss limit). In addition, the Group evaluates the exchange rate risk of the trading book by conducting stress testing on a quarterly basis. Retail foreign currency businesses are operated on an automated trading system and the Group can monitor the exposures from retail foreign currency business on a real time basis. The Group's operating and risk management systems are able to measure and monitor currency position created by various types of transactions. Moreover, the Group manages its exchange rate risk through spot and forward foreign exchange transactions and matching foreign currency financial assets with liabilities in the same currency, and manages its foreign currency assets and liabilities portfolio and structured position using derivative instruments (mainly foreign exchange forward or swap transactions).

The above sensitivity analysis is based on assets and liabilities with a static exchange rate risk structure. It has not taken into account the measures that the Group and the Bank may take to eliminate the adverse impact of foreign exchange exposure on net profit and equity. Therefore, above impact may be different with the actual situation.

The Group's exposure to currency risk at balance sheet date are as follows:

	The Group			
	As at 31 December 2019			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Financial assets				
Cash and deposits with central bank	134,678,769	5,431,866	146,289	140,256,924
Deposits and placements with banks and other financial institutions	171,757,948	10,377,358	2,522,305	184,657,611
Financial assets held under resale agreements	2,267,055	-	-	2,267,055
Loans and advances to customers	864,621,529	67,358,137	9,240,961	941,220,627
Financial investments (Note (i))	872,566,200	42,782,372	2,593,145	917,941,717
Other financial investments	25,526,125	208,568	116,074	25,850,767
Total financial assets	2,071,417,626	126,158,301	14,618,774	2,212,194,701

	The Group			
	As at 31 December 2019			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Financial liabilities				
Borrowings from central bank	(93,181,724)	-	-	(93,181,724)
Deposits and placements from banks and other financial institutions	(333,446,076)	(133,628,760)	(1,707,687)	(468,782,523)
Financial liabilities at FVTPL	(400,427)	-	-	(400,427)
Financial assets sold under repurchase agreements	(62,856,132)	(493,533)	-	(63,349,665)
Deposits from customers	(1,098,050,117)	(100,255,442)	(5,245,993)	(1,203,551,552)
Debt securities issued	(184,881,797)	(5,830,585)	-	(190,712,382)
Other financial liabilities	(20,975,860)	(898,717)	(236,171)	(22,110,748)
Total financial liabilities	(1,793,792,133)	(241,107,037)	(7,189,851)	(2,042,089,021)
Net position	277,625,493	(114,948,736)	7,428,923	170,105,680
Credit commitments	199,274,155	29,010,063	8,361,169	236,645,387
Net notional amount of derivative financial instruments	(116,803,974)	121,371,470	(5,146,650)	(579,154)

	The Group			
	As at 31 December 2018			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Financial assets				
Cash and deposits with central bank	140,684,899	4,301,350	119,526	145,105,775
Deposits and placements with banks and other financial institutions	119,546,743	8,731,312	2,156,727	130,434,782
Financial assets held under resale agreements	36,368,624	-	-	36,368,624
Loans and advances to customers	745,768,308	61,797,937	10,793,951	818,360,196
Investments (Note (ii))	820,164,841	36,886,951	2,010,170	859,061,962
Other financial assets	15,536,037	1,089,491	174,828	16,800,356
Total financial assets	1,878,069,452	112,807,041	15,255,202	2,006,131,695
Financial liabilities				
Borrowings from central bank	(102,942,000)	-	-	(102,942,000)
Deposits and placements from banks and other financial institutions	(315,018,595)	(120,281,277)	(2,004,616)	(437,304,488)
Financial liabilities at FVTPL	-	(7,168)	-	(7,168)
Financial assets sold under repurchase agreements	(61,151,258)	-	-	(61,151,258)
Deposits from customers	(951,233,005)	(84,209,541)	(7,047,059)	(1,042,489,605)
Debt securities issued	(182,978,697)	(4,801,289)	(1,595,544)	(189,375,530)
Other financial liabilities	(21,894,231)	(2,044,872)	(216,620)	(24,155,723)
Total financial liabilities	(1,635,217,786)	(211,344,147)	(10,863,839)	(1,857,425,772)
Net position	242,851,666	(98,537,106)	4,391,363	148,705,923
Credit commitments	141,069,325	34,122,146	9,460,493	184,651,964
Net notional amount of derivative financial instruments	(104,570,532)	107,688,584	(1,887,098)	1,230,954

(i) Financial investments comprise financial assets held for trading, debt investments, other debt investments, and investments in other equity instruments.

(ii) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment securities classified as receivables.

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit and equity. The following table sets forth the effect on the Group's net profit and equity from possible foreign exchange rate fluctuations with an assumption that all other variables held constant.

	The Group	
	Sensitivity of net profit and equity	
	31 December 2019	31 December 2018
Change in foreign currency exchange rate		
Appreciation against RMB by 100 bps	9,373	12,707
Depreciation against RMB by 100 bps	(9,373)	(12,707)

The sensitivity analysis is based on the following assumptions:

(i) changes in business after balance sheet date is not taken into account, the analysis is based on the static gap at the balance sheet date;

(ii) the foreign currency sensitivity is the gains or losses recognised as a result of a 100-basis point fluctuation in foreign currency exchange rates against RMB on balance sheet date (middle price);

(iii) the fluctuation of exchange rates by 100 basis points is based on the assumption of exchange rates movement over the next 12 months;

(iv) due to the immaterial proportion of the Group's total assets and liabilities denominated in foreign currencies other than US dollars, when calculating the effect on net profit and equity, other foreign currencies are converted into US dollars for this sensitivity analysis purpose;

(v) when calculating the foreign exchange exposures, exposures from foreign currency spot, forward and swap transactions are included;

(vi) other variables (including interest rates) remain unchanged; and

(vii) impact from foreign exchange rate change on customers' activities and market prices are not considered.

The above sensitivity analysis is based on the static structure of the assets and liabilities in respect of foreign exchange risk. It has not taken into account the potential efforts from the Group and the Bank to mitigate the negative effects on net profit and equity from foreign currency positions. Therefore, the estimation of the above may be different with the actual situation.

3 Liquidity risk

Liquidity risk is the risk that commercial banks fail to meet the demands associated with its payables due, new loans and reasonable financing activities, or encounter difficulties in meeting these demands with reasonable costs.

The Group's Board of Directors, its special committees, and the senior management constitute a decision-making system, which is responsible for reviewing and formulating liquidity risk strategies, important policies, and procedures. The Planning and Finance Department is responsible for liquidity risk management. It also forms an execution system with Financial Market Department, Asset Management Department and other business departments, Risk Management Department, the Board Office, the Office and other mid-desk and back-desk departments and various branches, responsible for the specific work of liquidity risk management. The Board of Supervisors and the Audit Department form a supervision system. Above systems perform the decision-making, execution and supervision functions of liquidity risk management according to the their responsibilities.

The Group sets various proportional indicators and business limits to manage liquidity risk according to the situation of overall assets and liabilities and market conditions; and meet the unpredictable payment needs that may occur in daily operations by holding sufficient liquid assets.

The Group mainly uses the following means to monitor and analyze the liquidity situation:

- Liquidity gap analysis;

- Liquidity indicator monitoring and forecasting arrangements (including but not limited to liquidity coverage ratio, net stable capital ratio, liquidity ratio, liquidity gap ratio, excess reserve ratio and other regulatory indicators and internal management objectives); and

- Stress testing.

On this basis, the Group has established a periodic reporting mechanism for liquidity risk, and timely reports latest situation of liquidity risk to the Board of Directors and the senior management.

Daily management of liquidity risk management includes: projecting the fund inflows and outflows according to the market trend to maintain an adequate funding base for the Group; continuously monitoring the maturity matching of assets and liabilities cash flow, and establishing multi-layer liquidity safeguarding measures; enhancing the foundation of liability business, maintaining sound financing capability; performing periodic liquidity stress tests to identify indicators which may lead to any liquidity risk at the earliest stage; establishing liquidity risk early warning mechanism and emergency plan, and regularly carrying out emergency drills.

(1) Maturity analysis

The following tables provide an analysis of the financial assets and liabilities of the Group based on the remaining periods to repayment on balance sheet date:

	The Group							
	As at 31 December 2019							
	Indefinite	Overdue / repayable on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Financial assets								
Cash and deposits with central bank	121,590,021	18,666,903	-	-	-	-	-	140,256,924
Deposits and placements with banks and other financial institutions	-	13,944,487	57,611,410	15,036,852	73,801,739	24,263,123	-	184,657,611
Financial assets held under resale agreements	-	-	2,267,055	-	-	-	-	2,267,055
Loans and advances to customers	-	5,766,916	70,761,627	65,143,677	391,891,315	261,304,319	146,352,773	941,220,627
Financial investments (Note (i))	213,334,995	22,883,516	11,701,686	31,111,045	143,783,533	371,373,390	123,753,552	917,941,717
Other financial assets	-	9,406,852	2,282,263	2,934,463	6,630,152	4,544,772	52,265	25,850,767
Total financial assets	**334,925,016**	**70,668,674**	**144,624,041**	**114,226,037**	**616,106,739**	**661,485,604**	**270,158,590**	**2,212,194,701**
Financial liabilities								
Borrowings from central bank	-	-	(308,936)	(35,029)	(92,837,759)	-	-	(93,181,724)
Deposits and placements from banks and other financial institutions	-	(93,050,564)	(178,432,034)	(69,968,614)	(127,331,311)	-	-	(468,782,523)
Financial liabilities at FVTPL	-	(300,120)	-	(100,307)	-	-	-	(400,427)
Financial assets sold under repurchase agreements	-	-	(51,322,607)	(9,120,681)	(2,906,377)	-	-	(63,349,665)
Deposits from customers	-	(446,439,788)	(115,425,439)	(110,320,577)	(282,418,224)	(248,947,524)	-	(1,203,551,552)
Debt securities issued	-	-	(72,754,541)	(49,791,885)	(29,705,884)	(5,964,066)	(32,496,006)	(190,712,382)
Other financial liabilities	-	(5,420,076)	(2,139,328)	(2,948,003)	(6,924,432)	(4,626,378)	(52,531)	(22,110,748)
Total financial liabilities	**-**	**(545,210,548)**	**(420,382,885)**	**(242,285,096)**	**(542,123,987)**	**(259,537,968)**	**(32,548,537)**	**(2,042,089,021)**
Net position	**334,925,016**	**(474,541,874)**	**(275,758,844)**	**(128,059,059)**	**73,982,752**	**401,947,636**	**237,610,053**	**170,105,680**
Notional amount of derivative financial instruments	**-**	**-**	**515,763,871**	**480,216,440**	**1,419,201,461**	**701,859,619**	**3,140,000**	**3,120,181,391**

	The Group							
	As at 31 December 2018							
	Indefinite	Overdue / repayable on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Financial assets								
Cash and deposits with central bank	118,698,942	26,406,833	-	-	-	-	-	145,105,775
Deposits and placements with banks and other financial institutions	-	13,085,430	24,138,529	18,645,000	52,933,898	21,631,925	-	130,434,782
Financial assets held under resale agreements	-	-	22,405,116	13,963,508	-	-	-	36,368,624
Loans and advances to customers	-	6,908,528	75,807,030	70,213,365	295,964,383	264,107,953	105,358,937	818,360,196
Investments (Note (ii))	179,189,592	19,651,044	29,099,525	79,925,366	140,754,061	307,458,177	102,984,197	859,061,962
Other financial assets	-	5,828,145	1,557,963	2,286,021	5,509,730	1,233,606	384,891	16,800,356
Total financial assets	**297,888,534**	**71,879,980**	**153,008,163**	**185,033,260**	**495,162,072**	**594,431,661**	**208,728,025**	**2,006,131,695**
Financial liabilities								
Borrowings from central bank	-	-	(15,500,000)	(2,000,000)	(85,442,000)	-	-	(102,942,000)
Deposits and placements from banks and other financial institutions	-	(85,193,916)	(170,694,431)	(70,634,573)	(110,506,388)	-	(275,180)	(437,304,488)
Financial liabilities at FVTPL	-	(7,168)	-	-	-	-	-	(7,168)
Financial assets sold under repurchase agreements	-	-	(52,550,312)	(6,872,389)	(1,728,557)	-	-	(61,151,258)
Deposits from customers	-	(416,284,545)	(97,313,369)	(110,009,899)	(235,759,241)	(177,622,551)	(5,500,000)	(1,042,489,605)
Debt securities issued	-	-	(63,503,357)	(55,543,962)	(51,704,107)	(6,131,368)	(12,492,736)	(189,375,530)
Other financial liabilities	-	(10,976,887)	(2,651,339)	(2,384,702)	(5,864,246)	(2,202,724)	(75,825)	(24,155,723)
Total financial liabilities	**-**	**(512,462,516)**	**(402,212,808)**	**(247,445,525)**	**(491,004,539)**	**(185,956,643)**	**(18,343,741)**	**(1,857,425,772)**
Net position	**297,888,534**	**(440,582,536)**	**(249,204,645)**	**(62,412,265)**	**4,157,533**	**408,475,018**	**190,384,284**	**148,705,923**
Notional amount of derivative financial instruments	**-**	**-**	**269,173,375**	**165,325,492**	**733,742,751**	**498,937,701**	**1,800,000**	**1,668,979,319**

(i) Financial investments comprise financial assets held for trading, debt investments, other debt investments, and investments in other equity instruments.

(ii) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment securities classified as receivables.

(2) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the financial liabilities of the Group at the end of balance sheet date. The Group's actual cash flows on these instruments may vary significantly from this analysis.

	The Group								
	As at 31 December 2019								
	Carrying amount	Gross nominal inflow / (outflow)	Indefinite	Overdue / repayment on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Non-derivative financial liabilities									
Borrowings from central bank	(93,181,724)	(95,184,646)	-	-	(309,450)	(35,963)	(94,839,233)	-	-
Deposits and placements from banks and other financial institutions	(468,782,523)	(470,621,265)	-	(93,050,567)	(178,539,613)	(70,168,841)	(128,862,244)	-	-
Financial liabilities at FVTPL	(400,427)	(400,427)	-	(300,120)	-	(100,307)	-	-	-
Financial assets sold under repurchase agreements	(63,349,665)	(63,595,146)	-	-	(51,413,173)	(9,219,684)	(2,962,289)	-	-
Deposits from customers	(1,203,551,552)	(1,250,583,592)	-	(464,018,248)	(119,802,687)	(114,508,733)	(293,465,399)	(258,788,525)	-
Debt securities issued	(190,712,382)	(202,135,978)	-	-	(72,853,305)	(50,056,949)	(31,407,086)	(9,780,138)	(38,038,500)
Other financial liabilities	(5,420,076)	(5,420,076)	-	(5,420,076)	-	-	-	-	-
Total non-derivative financial liabilities	**(2,025,398,349)**	**(2,087,941,130)**	**-**	**(562,789,011)**	**(422,918,228)**	**(244,090,477)**	**(551,536,251)**	**(268,568,663)**	**(38,038,500)**
Derivative financial instruments									
Derivative financial instruments settled on gross basis of which									
-Total inflow		296,882,796	-	-	135,846,601	49,944,236	104,483,583	6,608,376	-
-Total outflow		(296,859,160)	-	-	(135,852,761)	(49,929,382)	(104,263,202)	(6,813,815)	-
Derivative financial instruments settled on net basis		(586,931)	-	-	149,030	(26,432)	(534,499)	(174,764)	(266)
Total derivative financial instruments		**(563,295)**	**-**	**-**	**142,870**	**(11,578)**	**(314,118)**	**(380,203)**	**(266)**
Credit commitments		**236,645,387**	**-**	**55,210,742**	**17,183,170**	**22,403,021**	**88,384,196**	**35,483,740**	**17,980,518**

	The Group								
	As at 31 December 2018								
	Carrying amount	Gross nominal inflow / (outflow)	Indefinite	Overdue / repayment on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Non-derivative financial liabilities									
Borrowings from central bank	(102,942,000)	(106,325,648)	-	-	(16,003,750)	(2,065,356)	(88,256,542)	-	-
Deposits and placements from banks and other financial institutions	(437,304,488)	(442,168,983)	-	(85,193,916)	(171,579,686)	(71,428,164)	(113,654,052)	(36,737)	(276,428)
Financial liabilities at FVTPL	(7,168)	(7,168)	-	(7,168)	-	-	-	-	-
Financial assets sold under repurchase agreements	(61,151,258)	(61,367,324)	-	-	(52,664,978)	(6,942,013)	(1,760,333)	-	-
Deposits from customers	(1,042,489,605)	(1,069,830,835)	-	(427,235,628)	(99,804,359)	(112,847,697)	(241,954,857)	(182,320,801)	(5,667,493)
Debt securities issued	(189,375,530)	(196,702,686)	-	-	(63,653,746)	(55,867,998)	(53,319,923)	(9,324,019)	(14,537,000)
Other financial liabilities	(5,942,956)	(5,942,956)	-	(5,909,476)	-	-	(33,480)	-	-
Total non-derivative financial liabilities	**(1,839,213,005)**	**(1,882,345,600)**	**-**	**(518,346,188)**	**(403,706,519)**	**(249,151,228)**	**(498,979,187)**	**(191,681,557)**	**(20,480,921)**
Derivative financial instruments									
Derivative financial instruments settled on gross basis of which									
-Total inflow		417,313,965	-	-	183,061,085	60,276,122	166,483,384	7,493,374	-
-Total outflow		(415,935,936)	-	-	(182,674,199)	(60,226,437)	(165,797,301)	(7,237,999)	-
Derivative financial instruments settled on net basis		250,121	-	-	3,501	23,759	110,460	111,966	435
Total derivative financial instruments		**1,628,150**	**-**	**-**	**390,387**	**73,444**	**796,543**	**367,341**	**435**
Credit commitments		**184,651,964**	**-**	**39,773,286**	**8,954,631**	**20,604,014**	**37,848,299**	**65,258,606**	**12,213,128**

4 Operational risk

Operational risk refers to the risks resulting from inadequate or failed internal control procedures, from human or information system related factors and from external events.

The operational risks faced by the Group primarily include internal fraud, external fraud, employment system and workplace security incidents, customer, product and business activity incidents, damage to physical assets, business interruptions and information technology system failure incidents, execution, delivery and processes management incidents, etc.

The Group has established a "three lines of defense" operational risk management framework. The Board of Directors takes the ultimate responsibility for monitoring the effectiveness of operational risk management; the Board of Supervisors fulfils its supervisory responsibility for operational risk management; the senior management is responsible for implementing the operational risk management strategy, overall policy and system approved by the Board of Directors. Business and functional departments and branches form the first line of defense for operational risk management, and are primarily responsible for operational risk prevention; operational risk, internal control, case prevention and other management promotion departments constitute the second line of defense for operational risk management; the audit department is the third line of defense for operational risk management.

The Group has formed management process to identify, assess, measure, monitor, control, mitigate and report operational risks, based on the “three lines of defense” operational risk management structure. The Group constructs operation risk management information system, and uses management tools such as operational risk and control self-assessment (RCSA), key risk indicators of operational risk (KRI) and operational risk loss data collection (LDC), to identify, assess, and monitor operational risks. The Group has established an operational risk reporting system, through which branches or head office departments and subsidiaries report operational risk information in a timely manner.

In combination with relevant internal control regulations, the Group has adopted risk control strategies such as risk avoidance, reduction, transfer or undertaking, and implemented risk mitigation strategies through manners such as business continuity management, outsourcing management, and insurance management, to control operational risk losses within acceptable levels.

The Group has established an operational risk management assessment incentive and restraint mechanism. It also strengthens employee accountability management, provides employee training, regularly appraises employees to improve their performance of duties, and guide employees to establish correct operational risk management values and codes of conduct.

Each business and functional department of the Group is responsible for formulating and implementing relevant regulations on internal control of operational risks, including the following relevant regulations on internal control, as an effective means of operational risk management:

- requirements for appropriate segregation of duties, including independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- internal controls and management procedures;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- effective risk mitigation measures, including insurance.

XIV. Capital Management

The Group’s capital management includes capital adequacy ratio management, capital financing management and economic capital management. The group's capital management and distribution policies are reviewed regularly by the Board of Directors.

The Group commenced the computation of its capital adequacy ratios in accordance with Administrative Measures on the Capital of Commercial Banks (for Trial Implementation) and other relevant regulations. Commercial banks needs to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with Administrative Measures on the Capital of Commercial Banks (for Trial Implementation). Systemically important banks are required to meet minimum core tier one capital adequacy ratio, tier one capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50% and 11.50%, respectively. Non-systemically important banks are required to meet corresponding minimum ratios of 7.50%, 8.50% and 10.50%, respectively. The Group has complied in full with all its externally imposed capital requirements at 31 December 2019 and 31 December 2018.

Capital adequacy ratio management is the core of the capital management of the Group. The capital adequacy ratio reflects the Group’s operations and risk management capabilities. The Group considers its strategic development plans, business expansion plans and risk variable trends when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio for maintaining a solid capital base and supporting business healthy development as well as meeting regulatory requirements continuously.

The capital replenishment will mainly be drawn from accumulation within the group. And the group enhances the capital strength, broadens the channels of capital supplement, optimizes the capital structure and improve the quality of capital through the rational use of various types of capital replenishment tools.

Capital allocation

The Group determines the allocation of its capital to businesses or activities with the objective of maximizing the return on risk-adjusted capital. The amount of capital allocated to each business or activity is primarily determined based on regulatory requirements. However, in certain cases, regulatory requirements may not accurately address the varying degree of risks associated with different activities. In such cases, capital may be adjusted to an appropriate level to reflect the risk profiles.

The Group calculates the following core tier one capital adequacy ratio, tier one capital adequacy ratio and capital adequacy ratio in accordance with Administrative Measures on the Capital of Commercial Banks (for Trial Implementation) and relevant requirements as below:

	31 December 2019	31 December 2018
Core tier one capital adequacy ratio	9.66%	9.83%
Tier one capital adequacy ratio	10.92%	11.22%
Capital adequacy ratio	13.84%	13.00%
Capital composition		
Core tier one capital:		
- Paid-in capital	14,206,529	10,928,099
- Qualified portion of capital	22,307,843	25,717,981
- Surplus reserve	36,273,686	30,969,554
- General reserve	28,434,363	25,804,758
- Retained earnings	51,934,012	47,658,150
- Qualified portion of non-controlling interests	97,765	89,082
- Others (Note i)	316,009	240,837
Total core tier one capital	153,570,207	141,408,461
Core tier one capital deduction:		
- Goodwill (net of related deferred tax liabilities)	(1,579)	(1,579)
- Other intangible assets other than land use right (net of related deferred tax liability)	(554,192)	(346,312)
- Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(3,773)	(6,528)
Net core tier one capital	153,010,663	141,054,042
Other tier one capital:		
- Other tier one capital instruments and related premium	19,957,170	19,957,170
- Qualified portion of non-controlling interests	13,035	11,878
Net tier one capital	172,980,868	161,023,090
Tier two capital:		
- Tier two capital instruments and related premium	28,000,000	9,000,000
- Qualified portion of surplus provision for loan impairment	18,236,319	16,632,336
- Qualified portion of non-controlling interests	26,071	23,755
Net capital	219,243,258	186,679,181
Total risk-weighted assets	1,584,413,590	1,435,652,196

(i) Others are the translation reserve for the Group in accordance with Administrative Measures on Capital of Commercial Banks (For Trial Implementation).

XV. Fair Value of Financial Instruments

1 Fair value measurement

(1) Fair value hierarchy

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Group's assets and liabilities which are measured at fair value at each balance sheet date on a recurring basis. As at 31 December 2018, the Group's assets and liabilities which are not measured at fair value on a recurring basis were not significant. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels are defined as follows:

Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

Level 2 inputs: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities;

Level 3 inputs: inputs that are unobservable for underlying assets or liabilities.

The tables below analyses financial instruments, measured at fair value at the end of the balance sheet date, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Recurring fair value measurement	As at 31 December 2019			
	The Group			
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
Assets				
Derivative financial assets	-	16,443,915	-	16,443,915
Loans and advances to customers				
- Measured at fair value through profit or loss	-	-	315,113	315,113
- Measured at fair value through other comprehensive income	-	49,928,267	16,787,786	66,716,053
Financial assets held for trading				
- Debt instrument	-	21,884,016	83,351,708	105,235,724
- Equity instrument	167,604,115	44,507,789	707,717	212,819,621
Other debt investments	-	39,061,464	-	39,061,464
investments in other equity instruments	-	-	515,374	515,374
Total assets measured at fair value on a recurring basis	**167,604,115**	**171,825,451**	**101,677,698**	**441,107,264**
Liabilities				
Financial liabilities held for trading	-	(300,120)	(100,307)	(400,427)
Derivative financial liabilities	-	(16,690,672)	-	(16,690,672)
Total liabilities measured at fair value on a recurring basis	**-**	**(16,990,792)**	**(100,307)**	**(17,091,099)**

Recurring fair value measurement	As at 31 December 2018			
	The Group			
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
Assets				
Financial assets at fair value through profit or loss				
- Debt instruments	-	17,492,097	-	17,492,097
- Equity instruments	357,248	5,013	-	362,261
- Debt instruments designated at fair value through profit or loss	-	-	20,003	20,003
Derivative financial assets	-	1,237,616	-	1,237,616
Available-for-sale financial assets				
- Debt instruments	-	47,715,246	174,874,683	222,589,929
- Equity instruments	133,517,002	44,845,149	727,853	179,090,004
Total assets measured at fair value on a recurring basis	**133,874,250**	**111,295,121**	**175,622,539**	**420,791,910**
Liabilities				
Financial liabilities at fair value through profit or loss	(7,168)	-	-	(7,168)
Derivative financial liabilities	-	(829,640)	-	(829,640)
Total liabilities measured at fair value on a recurring basis	**(7,168)**	**(829,640)**	**-**	**(836,808)**

(2) Level 1 fair value measurement

If there is a reliable active market quote (such as an authorised stock exchange or active open-ended fund manager), the closing price or redemption price of the last trading day prior to the balance sheet date is used as fair value.

(3) Level 2 fair value measurement

Financial assets held for trading, debt instruments in financial assets measured at fair value through profit or loss, other debt investments and stocks in available-for-sale financial assets, negotiable certificate of deposits and asset-backed securities, short selling of debts in financial liabilities measured at FVTPL are determined based on the quotes provided by the valuation system of securities clearing institutions. Observable inputs that reflect market conditions are used by quotation institutions when preparing the quotation.

Equity instruments included in financial assets measured at FVTPL and available-for-sale financial assets are mainly assets management plans, whose fair value is determined based on the adjusted fair value of financial assets or liabilities held by relevant structured subject. When there is no current quotation for the financial assets or liabilities, their fair value should be determined based on the adjusted market quotations for recent transactions. The valuation is based on a technique for which all significant inputs are observable market data.

Stocks included in financial assets held for trading and financial assets at fair value through profit or loss, which doesn't have active fair value can refer to the recent market price. The measure method can adopt the valuation technique which all significant valuation parameters are observed using market information.

Loans and advances to customers at FVOCI are mainly bank acceptances, whose fair value is measured by the discounted expected cash flow in the future periods, and all significant valuation parameters involved are from observable market information.

The fair value of foreign exchange forwards and swaps, currency interest rate swaps, interest rate swaps, and commodity forward and swap included in the derivative financial instruments is determined by discounting the expected receivable and payable of future contracts and calculating the net present value of the contracts. The discount rate used is the market rate curve of respective currency. System quotations provided by exchanges relevant markets are used for exchange rates and commodity prices. Observable inputs that reflect market conditions are used by quotation institutions when preparing the quotation.

The pricing model based on Black-Scholes model is used to determine the fair value of foreign exchange options. Interest rate consists with market interest rate curve for the corresponding currency; exchange rates and volatility consist with quotations of related foreign exchange trading system. Observable inputs reflecting market conditions are used by related quotation agencies to offer a quote.

(4) Level 3 fair value measurement

The Group has developed relevant procedures to determine the appropriate valuation techniques and inputs for level 3 fair value measurement on a recurring basis, and regularly reviews the appropriateness of the relevant procedures and determination of the fair value.

Quantitative information of level 3 fair value measurement is as follows:

	Fair value as at 31 December 2019	Valuation technique	Unobservable inputs	Range (weighted average)
Assets				
Loans and advances to customers	17,102,899	Discounted cash price method	Risk-adjusted discount rate	[3.45%, 7.13%]
Wealth management product	83,351,708	Discounted cash price method	Risk-adjusted discount rate	[3.50%, 4.14%]
Unlisted equity instrument	421,047	Comparison of listed companies	Discounted liquidity	20%
Unlisted equity instrument	482,147	Refer to the recent trading market	N/A	N/A
Unlisted convertible corporate bonds	319,897	Discounted cash price method	Risk-adjusted discount rate	[11.00%, 12.00%]
Liabilities				
Unlisted convertible corporate bonds	(100,307)	Discounted cash price method	Risk-adjusted discount rate	11.00%

	Fair value as at 31 December 2019	Valuation technique	Unobservable inputs	Range (weighted average)
Debt investment plan	25,109,386	Discounted cash price method	Risk-adjusted discount rate	[4.20%, 6.91%]
Wealth management product	149,765,297	Discounted cash price method	Risk-adjusted discount rate	[4.30%, 5.36%]
Unlisted equity instrument	517,826	Comparison of listed companies	Discounted liquidity	20%
Unlisted convertible corporate bonds	210,027	Discounted cash price method	Risk-adjusted discount rate	[8.43%, 8.86%]
Unlisted RMB bills	20,003	Discounted cash price method	Risk-adjusted discount rate	6.5%

The group uses the valuation technique which include unobserved market data for part of loans and advances to customers, wealth management product, unlisted convertible loans, unlisted RMB bills and debt investment plan. The valuation technique for the above assets is discounted cash price method, of which the unobservable inputs include risk-adjusted discount rate, etc.

The Group uses the price-to-book ratio of comparable listed companies to determine the fair value of the part of unlisted equity instruments, and makes adjustments by discounting its liquidity. The liquidity discounts in the above models are unobservable inputs.

As at 31 December 2019 and 31 December 2018, the impact of replacing existing unobservable assumptions with other reasonable assumptions on the fair value measurement result is not significant.

The above assumptions and methods provide a consistent basis for the Group to calculate the fair value of its assets and liabilities. Other entities, however, may use different assumptions and methods, and therefore the fair value disclosed by other financial institutions may not be entirely comparable.

Reconciliation of the opening and closing balance for assets of level 3 fair value on a recurring basis is as follows:

	2019						
	The Group						
		Total gains or losses during the year (Note)		Additions and settlements			
	As at 1 January	Recognised in profit or loss	Recognised in other comprehensive income	Additions	Settlement	As at 31 December	For asset held and Liabilities assumed at end of year, unrealised gains or losses during the year recognised in profit or loss
Assets							
Loans and advances to customers							
- At fair value through profit or loss	822,246	25,836	-	273,765	(806,734)	315,113	(8,582)
- At fair value through other comprehensive income	955,117	322,140	88,618	45,894,533	(30,472,622)	16,787,786	-
Financial assets held for trading							
- Debt instruments	150,326,871	4,581,979	-	173,750,000	(245,307,142)	83,351,708	839,141
- Equity instruments	215,599	45,231	-	1,225,040	(778,153)	707,717	12,078
Investments in other equity instruments	613,593	38,364	(98,219)	-	(38,364)	515,374	-
Total	152,933,426	5,013,550	(9,601)	221,143,338	(277,403,015)	101,677,698	842,637
Liabilities							
Financial liabilities held for trading	-	(307)	-	(100,000)	-	(100,307)	(307)

	2018						
	The Group						
		Total gains or losses during the year (Note)		Additions and settlements			
	As at 1 January	Recognised in profit or loss	Recognised in other comprehen-sive income	Additions	Settlement	As at 31 December	For asset held and Liabilities assumed at end of year, unrealised gains or losses during the year recognised in profit or loss
Assets							
Financial assets at fair value through profit or loss							
- Debt instruments designated at fair value through profit or loss	-	3	-	20,000	-	20,003	3
Available-for-sale financial assets							
- Debt instruments	159,708,428	5,572,258	-	238,550,000	(228,956,003)	174,874,683	(282,374)
- Equity instruments	485,463	87,968	(55,605)	210,027	-	727,853	87,968
Total	160,193,891	5,660,229	(55,605)	238,780,027	(228,956,003)	175,622,539	(194,403)

Note: Details of the above gains or losses charged to profit or loss or other comprehensive income recognised by the Group at 31 December 2019 and at 31 December 2018 are as follows:

	2019	
	Item	Amount
Realised gains or losses recognised in profit or loss during the year	Investment income	3,860,975
	Interest income	309,938
Sub-total		4,170,913
Unrealised gains or losses recognised in profit or loss during the year	Losses on changes in fair value of loans and advances to customers measured at FVTPL	(8,582)
	Gains on changes in fair value of financial assets held for trading	851,219
	Losses on changes in fair value of financial liabilities held for trading	(307)
Sub-total		842,330
Gains or losses recognised in other comprehensive income	Losses on changes in fair value of investments in other equity instruments	(98,219)
	Gains on changes in fair value of loans and advances to customers measured at FVOCI	88,618
Sub-total		(9,601)
	2018	
	Item	Amount
Realised gains or losses recognised in profit or loss during the year	Interest income	5,854,632
Unrealised gains or losses recognised in profit or loss during the year	Financial assets at fair value through profit or loss Gains on changes in fair value	3
	Impairment losses	(194,406)
Total		(194,403)
Gains or losses recognised in other comprehensive income	Losses on changes in fair value of available-for-sale financial assets	(55,605)

Analysis of level 3 fair value measurement items on a recurring basis and sensitivity of unobservable inputs is as follows:

The fair value of some of the Group's loans and advances to customers, debt investment plans, wealth management products, unlisted convertible loans and unlisted RMB bills is determined by discounting related expected cash flow of mentioned assets through the risk adjusted discount rate. The discount rate used has been adjusted according to counterparty credit risk. There is a negative correlation between fair value measurement and risk adjusted discount rate.

The Group uses the price-to-book ratio of comparable listed companies to determine the fair value of part of unlisted equity instruments, and makes adjustments by discounting its liquidity discount. Fair value measurement and liquidity are negatively correlated. As at 31 December 2019, when all other variables remain constant, an increase or decrease of 5% in liquidity discount will result in an decrease or increase of RMB19.74 million in the Group’s other comprehensive income (31 December 2018: decrease or increase of RMB24.34 million).

2 Change of items measured at fair value between different levels

During the Relevant Periods, the Group’s assets and liabilities measured at fair value have not been changed significantly between different levels.

3 Change of valuation techniques and the reasons

During the Relevant Periods, valuation techniques used by the Group for fair value measurement were not changed significantly.

4 Fair value of financial assets and liabilities not measured at fair value

In addition to the following items, there was no significant difference between the carrying amount and the fair value of the Group’s other financial assets and liabilities as at 31 December 2019 and 31 December 2018.

	31 December 2019			
	Level 2	Level 3	Fair value	Carrying amount
Financial assets				
Debt investments	446,902,983	118,677,136	565,580,119	560,309,534
Financial liabilities				
Debt securities issued	189,127,773	2,304,290	191,432,063	190,712,382
	31 December 2018			
	Level 2	Level 3	Fair value	Carrying amount
Financial assets				
Held-to-maturity investment	311,928,482	-	311,928,482	310,643,240
Investment securities classified as receivables	8,006,481	120,656,902	128,663,383	128,764,840
Total	**319,934,963**	**120,656,902**	**440,591,865**	**439,408,080**
Financial liabilities				
Debt securities issued	185,432,695	4,592,391	190,025,086	189,375,530

For the above financial assets and liabilities not measured at fair value, the Group used the following methods to determine their fair value:

(1) Fair value of part of bonds under debt investments, held-to-maturity financial assets, investment securities classified as receivables, as well as financial liabilities of subordinated debt securities, tier 2 capital bonds, negotiable certificates of deposit and unlisted US dollar note instruments issued is based on the quotes provided by the valuation system of securities clearing institutions. Observable inputs that reflect market conditions are used by quotation institutions when preparing the quotation.

(2) There is no quotation for part of bonds, asset management plans, structured notes and wealth management products of commercial banks in debt investments and investment classified as receivables, and certificate of deposit in debit securities issued on the active market. As a result, the Group estimates the fair value of these debt investments, investment classified as receivables and these financial liabilities for debit securities issued by applying the discounted cash flow method. The discount rate used is the yield curve adjusted to the credit risk of financial investment measured at amortised cost, investment classified as receivables and the financial liabilities for debit securities issued at the end of reporting year.

XVI. Subsequent Events

1 The Board of Directors approved on 24 April 2020 the profit appropriations for the year ended 31 December 2019. The proposal is subject to approval by the shareholder's general meeting.

2 Evaluation of the impact of COVID-19

Since COVID-19 broke out through the country in January 2020, the prevention and control works are continuing nationwide. The Bank will effectively implement the requirements of relevant regulatory and strengthen financial support for epidemic prevention and control. COVID-19 will have a certain impact on China's overall economic operation and business operations, which may affect the asset quality and asset return level of the Bank's credit assets and investment assets to a certain extent. The degree of impact will depend on the situation and duration of epidemic prevention and control and the implementation of various regulatory policies. The Bank will continue to pay close attention to the development of COVID-19, and assess and actively respond to its impact on the Bank's financial situation and operating result. As of the date of this report, the assessment is still in progress.

XVII. Comparative Figures

For the purpose of the presentation of these financial statements, the Group reclassified certain comparative figures.

Bank of Shanghai Company Limited Supplementary Financial Information

(Expressed in thousands of Renminbi unless otherwise stated)

1 Extraordinary gains and losses

Extraordinary gains and losses listed below are presented in accordance with Interpretive Pronouncement on the Preparation of Information Disclosure of Companies Issuing Public Shares No.1 – Extraordinary Gains and Losses:

	Note	2019	2018
Income from bank card overdue fee		110,817	91,043
Income from the compensation of litigation and breach of contract		96,338	62,509
Government grants		66,764	42,998
Income from clean up the suspense account		68	42
Net losses from disposal of other assets		(7,756)	(8,958)
Net losses from disposal of fixed assets		(8,485)	(6,867)
Donation expenditure		(34,432)	(12,412)
Other profit and loss		(18,359)	35,329
Net amount of extraordinary gains and losses	(1)	**204,955**	**203,684**
Tax effect	(2)	(64,340)	(55,742)
Total		**140,615**	**147,942**
Including:			
Net amount of extraordinary gains and losses affecting the net profit of the Bank's shareholders		138,181	146,833
Net amount of extraordinary gains and losses affecting the net profit of the Group's minority shareholders		2,434	1,109

Notes: (1) The extraordinary gains and losses shall be accounted in other income, losses from asset disposals and non-operating income or expenses.

Gains or losses on the financial assets which the Group entrusted to others for investing or management, reversal of financial investments credit loss provision, possession and disposal of financial assets held for trading or financial assets at fair value through profit or loss, financial liabilities measured at FVTPL and other debt investments or available-for-sale financial assets and custodian fee income received as trustee are not presented as extraordinary gains and losses because the above gains and losses are generated from normal operation.

(2) According to Regulations for the Implementation of the PRC Enterprise Income Tax Law and relevant regulations, net losses on disposal of fixed assets, net losses on disposal of other assets, non-public donations, compensations, liquidated damages and fines included in other profit or loss cannot be deducted before taxation.

2 Earnings per share

In accordance with Regulation on the Preparation of Information Disclosures by Companies Issuing Securities No.9 – Calculation and Disclosure of the Return on Net Assets and Earnings Per Share (2010 revised) (The Rules for the Information Disclosure and Reporting No.9) issued by the CSRC and relevant accounting standards, the Group's earnings per share are calculated as follows:

	2019	2018
Weighted average number of ordinary shares outstanding (in thousand shares)	14,206,529	10,928,099
Weighted average number of ordinary shares outstanding after adjustment (in thousand shares)	14,206,529	14,206,529
Earnings per share before deducting extraordinary gains and losses		
- Net profit attributable to equity holders of the Bank	19,257,588	16,994,040
- Basic and diluted earnings per share attributable to equity holders of the Bank (in RMB)	1.36	1.20
Earnings per share after deducting extraordinary gains and losses		
- Net profit attributable to equity holders of the Bank after deducting extraordinary gains and losses	19,119,407	16,847,207
- Basic and diluted earnings per share attributable to equity holders of the Bank after deducting extraordinary gains and losses	1.35	1.19

According to the resolution of the 2018 annual general meeting of shareholders approved by the Bank on June 14, 2019, the number of total common stock shares issued before the implementation of the plan was 10,928,099,000. The Bank converted capital reserve to share capital on the basis of 0.4 shares for every share offered to all the registered common stock shareholders on the record of date. Upon the completion of such conversion, the total common stock share capital was increased to 14,206,528,700. According to the Rules for the Information Disclosure and Reporting No.9, the weighted average number of ordinary shares outstanding and earnings per share indicators during each comparative period were recalculated based on the number of common stock shares after conversion.

There was no difference between basic and diluted earnings per share as there were no ordinary shares that are not dilutive during the year ended 31 December 2019 and 2018.

3 Return on net assets

In accordance with "The Rules for the Information Disclosure and Reporting No.9" issued by the CSRC, the Group's return on net assets are calculated as follows:

	2019	2018
Net asset attributable to equity holders of the Bank	156,751,442	141,319,379
Weighted net asset attributable to equity holders of the Bank	148,876,901	134,172,935
Before deducting extraordinary gains and losses		
- Net profit attributable to equity holders of the Bank	19,257,588	16,994,040
- Weighted average of return on net assets	12.94%	12.67%
After deducting extraordinary gains and losses		
- Net profit attributable to equity holders of the Bank	19,119,407	16,847,207
- Weighted average of return on net assets	12.84%	12.56%

4 Compensation

According to regulations such as Guidelines for Stable Compensation Supervision of Commercial Banks, Administrative Measures on the Capital of Commercial Banks (for Trial Implementation), Implementation Measures of the Municipal SASAC Supervising Enterprise Salary Decision Mechanism Reform, the total salary expenses of all employees of the Group (including basic salary, allowance and performance bonuses) in 2019 were RMB4.421 billion; In 2019, the Bank have 3,456 employees with significant impact on risks performing roles other than directors, supervisors and senior management personnel. Total salary expenditure of these employees is RMB1.786 billion, and the deferred payment of performance compensation is implemented in accordance with the regulations, with deferred payment period of three years.

5 Leverage ratio

For more detailed information about leverage ratios, please refer to the column on investor relations-regulatory capital at the Bank's website: www.bosc.cn.

6 Regulatory capital

For more information about regulatory capital, please refer to the column on investor relations-regulatory capital at the Bank's website: www.bosc.cn.

AUDITORS' REPORT

KPMG hua-zhen,no.1900550

All Shareholders of Bank of Shanghai Company Limited:

1. Opinion

We have audited the accompanying financial statements of Bank of Shanghai Company Limited ("the Bank"), which comprise the consolidated and company balance sheets as at 31 December 2018, the consolidated and company income statements, the consolidated and company cash flow statements, the consolidated and company statements of changes in shareholders' equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company financial position of the Bank as at 31 December 2018, and the consolidated and company financial performance and cash flows of the Bank for the year then ended in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

2. Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the China Code of Ethics for Certified Public Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and receivables

Refer to the accounting policies in following notes to the Financial Statements:
Note III 7(2): Impairment of the Financial Assets;
Note III 29: Significant Accounting Judgments and Estimates;
Note V 8: Loans and Advances to Customers; and
Note V 11: Investment securities classified as receivables.

The Key Audit Matter	How the matter was addressed in our audit
Loans and receivables include Loans and Advances to Customers and Investment securities classified as receivables. Impairment of loans and receivables is a subjective area due to the degree of judgement applied by management in determining impairment allowances. From the Group's perspective, the portfolios which gave rise to the greatest uncertainty in determining impairment allowances for loans and advances to customers were those where impairments were derived from models approximating the impact of external environment and credit conditions on large portfolios of loans and advances to customers, and assessment of recoverable cash flows relating to individual loans and advances to customers, where loans and advances to customers were unsecured or were subject to potential collateral shortfalls.	Our audit procedures to assess impairment of loans and advances to customers included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording, monitoring and restructuring of loans and advances to customers, the credit grading process and the measurement of impairment allowances for individually assessed loans and advances to customers. • comparing the sum of impairment allowances of loans by credit quality across all grades with the allowances in the general ledger ; • assessing the appropriateness of the Group's methodology of collective impairment allowances by testing the samples in order to evaluate whether the individual impairment allowances should be performed;

Impairment of loans and receivables

Refer to the accounting policies in following notes to the Financial Statements:
Note III 7(2): Impairment of the Financial Assets;
Note III 29: Significant Accounting Judgments and Estimates;
Note V 8: Loans and Advances to Customers; and
Note V 11: Investment securities classified as receivables.

The Key Audit Matter	How the matter was addressed in our audit
Individual impairment allowances are assessed by management once objective evidence of impairment becomes apparent in a corporate loan. Management exercises judgement in determining the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors. Whilst the Group appoints external valuers for the valuation of certain property and other illiquid collateral, enforceability, timing and means of realisation also affect the ultimate collectability and thereby the amount of impairment allowances as at the reporting date. The determination of the collective impairment allowances is dependent on the external macro environment and internal credit risk management models. The Group's collective impairment allowances for corporate loans and advances are derived from estimates including the Group's historical losses, the historical emergence period for corporate loans and advances (i.e. the time lapse between the occurrence of the event causing eventual default to the actual recording of a loss) and other adjustment factors. The Group's collective impairment allowances for personal loans are derived from estimates, including the Group's historical overdue data, historical loss experience for personal loans and other adjustment factors. We identified assessing impairment of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.	• assessing the impairment allowances for individually impaired corporate loans and advances by selecting a risk-based sample for credit review. We analysed the loan portfolio by industry sector to select samples in industries vulnerable to the current economic slowdown. We also focused on loans with perceived higher risk and selected samples from nonperforming loans, overdue but performing loans and borrowers with negative warning signs or adverse press coverage. We also made use of our internal IT specialist to assess the logic of preparing the overdue loans; • performing credit assessments for the selected individually impaired corporate loans and advances by assessing the forecast of recoverable cash flows through inquiry, applying judgement and our own research. We evaluated the timing and means of realisation of collateral and considered other sources of repayment asserted by management. We also evaluated the consistency of management's application of key assumptions and compared them with our own data sources. Where available, we made use of post reporting date information to evaluate credit quality with hindsight; • evaluating the validity of the models used and assumptions adopted in the Group's calculation of the collective impairment allowances by critically assessing: — input parameters involving management judgement; — economic factors used in the models; — the accuracy of the loan grading migration data for the corporate loan portfolios; — the overdue statistical data for the personal loan portfolios; and — historical loss parameters used. • considering, as part of the procedures above, the nature of and reasons for any revisions to the key assumptions and input parameters in the models, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses and assessing key internal controls over the input of underlying data into the models. We compared the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the account to a non-performing loan; • assessing the appropriateness of the Group's methodology of collective impairment allowances and testing the model calculations; • assessing the disclosures in the consolidated financial statements in relation to impairment of loans and advances to customers with reference to the requirements of the prevailing accounting standards.

Consolidation of structured entities	
Refer to the accounting policies in following notes to the Financial Statements: Note III 4: Business combination and consolidated financial statements, Note III 29: Significant Accounting Judgments and Estimates and Note VI 3: Involvement with Unconsolidated Structured Entities.	
The Key Audit Matter	**How the matter was addressed in our audit**
Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity, through issuing a wealth management product, an investment fund, an asset management plan, a trust plan, a structured lease or an asset-backed security. In determining whether the Group should retain any partial interests in a structured entity or should consolidate a structured entity, management is required to consider the risks and rewards retained, the power the Group is able to exercise over the activities of the entity and its ability to influence the Group's own returns from the entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions. We identified the recognition of interests in and consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and nature of each entity.	Our audit procedures to assess the recognition of interests in and consolidation of structured entities included the following: • understanding and assessing the design and implementation of internal control relating to the judgement process over whether a structured entity is consolidated or not; • selecting significant structured entities of each key product type and performing the following procedures for each structured entity selected: — inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity; — inspecting the risk and reward structure of the structured entity, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management's judgement as to the exposure, or rights, to variable returns from the Group's involvement in such an entity; — evaluating management's analysis of the structured entity, including qualitative analysis and the calculation of the magnitude and variability associated with the Group's economic interests in the structured entity, to assess management's judgement over the Group's ability to influence its own returns from the structured entity; — assessing management's judgement over whether the structured entity should be consolidated or not; • evaluating the disclosures relating to structured entities in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

Fair value of financial instruments	
Refer to the accounting policies in following notes to the Financial Statements: Note III 7: Financial Instruments, Note III 16: Fair value measurement, Note III 29: Significant Accounting Judgments and Estimates; and Note XV: Fair Value of Financial Instruments.	
The Key Audit Matter	**How the matter was addressed in our audit**
Financial instruments carried at fair value account for a significant part of the Group's assets. The effect of fair value adjustments may impact either the profit or loss or other comprehensive income.	Our audit procedures to assess the fair value of financial instruments included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office and back office reconciliations and model approval for financial instruments;

Fair value of financial instruments	
Refer to the accounting policies in following notes to the Financial Statements: Note III 7: Financial Instruments, Note III 16: Fair value measurement, Note III 29: Significant Accounting Judgments and Estimates; and Note XV: Fair Value of Financial Instruments.	
The Key Audit Matter	**How the matter was addressed in our audit**
The valuation of the Group's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data, in particular for level 1 and level 2 financial instruments in the fair value hierarchy, the valuation techniques for which use quoted market prices and observable inputs, respectively. Where such observable data is not readily available, as in the case of level 3 financial instruments, then estimates need to be developed which can involve significant management judgement. The Group has developed its own models to value certain level 2 and level 3 financial instruments, which also involve significant management judgement. We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.	• assessing the level 1 fair values, on a sample basis, by comparing the fair values applied by the Group with publicly available market data; • engaging our internal valuation specialists to assist us in performing independent valuations, on a sample basis, of level 2 and level 3 financial instruments and comparing our valuations with the Group's valuations. Our procedures included developing parallel models, obtaining inputs independently and verifying the inputs; • assessing whether the disclosures in the consolidated financial statements, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.

4. Other Information

The Bank's management is responsible for the other information. The other information comprises all the information included in 2018 annual report of the Bank, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

5. Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

6. Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Huazhen LLP

Certified Public Accountants Registered in the People's Republic of China

China Beijing

(Signed on Chinese original) Jin Naiwen

金乃雯

中国注册会计师 金乃雯

(Signed on Chinese original) Zhang Chenchen

张晨晨

中国注册会计师 张晨晨

19 April 2019

Bank of Shanghai Company Limited Consolidated balance sheet and balance sheet

(Expressed in thousands of Renminbi)

	Note	The Group		The Bank	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Assets					
Cash and deposits with central bank	V. 1	145,105,775	136,063,645	144,686,994	135,523,343
Deposits with banks and other financial institutions	V. 2	15,090,430	38,788,136	13,219,871	37,744,874
Placements with banks and other financial institutions	V. 3	115,344,352	97,178,409	113,716,837	93,130,197
Financial assets at fair value through profit or loss	V. 4	17,874,361	11,554,237	17,475,237	11,050,447
Derivative financial assets	V. 5	1,237,616	839,088	1,208,812	822,813
Financial assets held under resale agreements	V. 6	36,368,624	25,808,851	28,404,516	23,695,961
Interests receivable	V. 7	9,760,277	7,680,426	9,586,977	7,547,582
Loans and advances to customers	V. 8	818,360,196	643,191,324	799,154,963	624,607,395
Available-for-sale financial assets	V. 9	401,779,521	420,684,813	396,701,596	417,714,561
Held-to-maturity investments	V. 10	310,643,240	264,262,868	307,217,029	264,068,510
Investment securities classified as receivables	V. 11	128,764,840	136,701,386	140,593,021	142,540,469
Long-term equity investments	V. 12	402,120	395,131	4,253,123	4,245,839
Fixed assets	V. 13	5,779,671	4,394,538	5,700,120	4,309,326
Intangible assets	V. 14	536,143	510,670	523,689	498,476
Deferred tax assets	V. 15	9,690,070	7,783,439	9,605,012	7,740,186
Other assets	V. 16	11,035,163	11,929,977	10,739,821	11,714,657
Total assets		**2,027,772,399**	**1,807,766,938**	**2,002,787,618**	**1,786,954,636**

The notes on pages 117 to 201 form part of these financial statements.

Bank of Shanghai Company Limited Consolidated balance sheet and balance sheet (continued)

(Expressed in thousands of Renminbi)

	Note	The Group		The Bank	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Liabilities and equity					
Liabilities					
Borrowings from central bank		102,942,000	81,605,000	102,832,000	81,500,000
Deposits from banks and other financial institutions	V. 18	368,968,350	328,654,261	369,719,653	329,069,326
Placements from banks and other financial institutions	V. 19	68,336,138	51,801,096	64,716,254	49,938,427
Financial liabilities at fair value through profit or loss	V. 20	7,168	-	-	-
Derivative financial liabilities	V. 5	829,640	1,359,342	787,094	1,343,268
Financial assets sold under repurchase agreements	V. 21	61,151,258	78,573,169	61,151,258	78,359,419
Deposits from customers	V. 22	1,042,489,605	923,585,324	1,031,001,362	909,146,324
Employee benefits payable	V. 23	3,700,168	2,978,946	3,547,294	2,834,423
Taxes payable	V. 24	4,293,452	4,144,141	4,239,436	4,129,098
Interests payable	V. 25	17,383,127	16,570,559	17,201,728	16,404,001
Debt securities issued	V. 26	189,375,530	168,148,078	181,358,106	165,625,190
Deferred tax liabilities	V. 15	-	55,741	-	-
Other liabilities	V. 27	6,527,355	2,849,878	6,306,893	2,704,565
Total liabilities		**1,866,003,791**	**1,660,325,535**	**1,842,861,078**	**1,641,054,041**
Equity					
Share capital	V. 28	10,928,099	7,805,785	10,928,099	7,805,785
Other equity instruments	V. 29	19,957,170	19,957,170	19,957,170	19,957,170
Capital reserve	V. 30	25,331,364	28,452,203	25,329,889	28,452,203
Other comprehensive income	V. 31	627,454	(571,337)	499,252	(789,144)
Surplus reserve	V. 32	30,969,554	26,435,300	30,969,554	26,435,300
General reserve	V. 33	25,804,758	25,780,256	25,630,000	25,630,000
Retained earnings	V. 34	47,658,150	39,125,759	46,612,576	38,409,281
Total equity attributable to equity shareholders of the Bank		**161,276,549**	**146,985,136**	**159,926,540**	**145,900,595**
Non-controlling interests		**492,059**	**456,267**	**-**	**-**
Total equity		**161,768,608**	**147,441,403**	**159,926,540**	**145,900,595**
Total liabilities and equity		**2,027,772,399**	**1,807,766,938**	**2,002,787,618**	**1,786,954,636**

These financial statements were approved by the Board of Directors of the Bank on 19 April 2019.

Jin Yu
Chairman

Hu Youlian
President

Shi Hongmin
Vice President and
Chief Financial Officer

The notes on pages 117 to 201 form part of these financial statements.

Bank of Shanghai Company Limited Consolidated statement of comprehensive income and statement of comprehensive income

(Expressed in thousands of Renminbi)

	Note	The Group		The Bank	
		2018	2017	2018	2017
Interest income		75,877,060	60,082,285	74,787,717	59,252,748
Interest expense		(45,940,231)	(40,964,976)	(45,412,654)	(40,615,603)
Net interest income	V. 35	**29,936,829**	**19,117,309**	**29,375,063**	**18,637,145**
Fee and commission income		6,744,495	6,785,558	6,445,227	6,470,486
Fee and commission expense		(764,956)	(529,772)	(752,114)	(528,039)
Net fee and commission income	V. 36	**5,979,539**	**6,255,786**	**5,693,113**	**5,942,447**
Other income		42,998	29,105	30,790	10,464
Net investment gains	V. 37	7,906,133	9,636,523	7,931,944	9,680,438
Net gains / (losses) from changes in fair value	V. 38	4,652,482	(5,569,912)	4,702,894	(5,623,788)
Net foreign exchange (losses) / gains		(4,718,719)	3,535,189	(4,855,487)	3,447,820
Other operating incomes		95,427	111,090	92,700	107,557
(Losses) / gains from asset disposals		(6,867)	9,905	(6,867)	9,905
Operating income		**43,887,822**	**33,124,995**	**42,964,150**	**32,211,988**
Taxes and surcharges		(446,728)	(343,679)	(444,597)	(341,519)
General and administrative expenses	V. 39	(9,006,391)	(8,105,358)	(8,653,168)	(7,775,519)
Impairment losses	V. 40	(15,331,901)	(8,671,315)	(15,248,410)	(8,357,088)
Other operating expenses		(18,483)	(18,920)	(18,481)	(18,854)
Operating expenses		**(24,803,503)**	**(17,139,272)**	**(24,364,656)**	**(16,492,980)**
Operating profit		**19,084,319**	**15,985,723**	**18,599,494**	**15,719,008**
Add: Non-operating income		199,037	122,727	198,947	122,644
Less: Non-operating expenses		(31,484)	(25,988)	(31,077)	(25,389)
Profit before tax		**19,251,872**	**16,082,462**	**18,767,364**	**15,816,263**
Less: Income tax expense	V. 41	(1,184,037)	(745,669)	(1,086,922)	(702,084)
Net profit for the year		**18,067,835**	**15,336,793**	**17,680,442**	**15,114,179**
Net profit classified by continuity of operations:					
Net profit from continuing operations		18,067,835	15,336,793	17,680,442	15,114,179
Net profit from discontinued operations		-	-	-	-
Attributable to:					
Shareholders of the Bank		18,034,040	15,328,499	17,680,442	15,114,179
Non-controlling interests		33,795	8,294	-	-
Other comprehensive income, net of tax	V. 31	**1,180,474**	**(1,056,287)**	**1,288,396**	**(913,764)**
Other comprehensive income attributable to equity shareholders of the Bank, net of tax		1,198,791	(1,067,531)	1,288,396	(913,764)
Items that may be reclassified to profit or loss:					
Gains or losses arising from changes in fair value of available-for-sale financial assets		1,005,250	(797,075)	1,288,396	(913,764)
Translation differences arising on translation of foreign currency financial statements		193,541	(270,456)	-	-
Other comprehensive income attributable to non-controlling interests, net of tax		(18,317)	11,244	-	-
Total comprehensive income for the year		**19,248,309**	**14,280,506**	**18,968,838**	**14,200,415**
Total comprehensive income attributable to:Equity shareholders of the Bank		**19,232,831**	**14,260,968**	**18,968,838**	**14,200,415**
Non-controlling interests		**15,478**	**19,538**	-	-
Basic and diluted earnings per share (RMB)		**1.56**	**1.40**		

These financial statements were approved by the Board of Directors of the Bank on 19 April 2019.

Jin Yu
Chairman

Hu Youlian
President

Shi Hongmin
Vice President and
Chief Financial Officer

The notes on pages 117 to 201 form part of these financial statements.

Bank of Shanghai Company LimitedConsolidated cash flow statement and cash flow statement

(Expressed in thousands of Renminbi)

	Note	The Group		The Bank	
		2018	2017	2018	2017
Cash flows from operating activities:					
Net decrease in deposits with central bank		4,902,485	-	4,900,290	-
Net decrease in deposits with banks and other financial institutions		13,809,879	-	13,859,880	-
Net decrease in financial assets held under resale agreements		-	3,318,166	-	-
Net increase in borrowings from central bank		21,337,000	-	21,332,000	-
Net increase in deposits from banks and other financial institutions		40,314,089	46,638,526	40,650,327	46,743,156
Net increase in placements from banks and other financial institutions		16,547,675	2,849,969	14,790,460	2,201,604
Net increase in financial liabilities at fair value through profit or loss		7,147	-	-	-
Net increase in deposits from customers		118,904,281	74,511,960	121,855,038	72,181,554
Interest receipts		51,964,393	34,971,309	50,345,032	33,906,851
Fee and commission receipts		6,938,227	7,137,539	6,638,959	6,843,180
Proceeds from other operating activities		3,961,172	2,101,384	3,918,877	1,927,476
Sub-total of cash inflows		**278,686,348**	**171,528,853**	**278,290,863**	**163,803,821**
Net increase in deposits with central bank		-	(1,425,972)	-	(1,329,294)
Net increase in deposits with banks and other financial institutions		-	(13,459,129)	-	(13,425,869)
Net increase in placements with banks and other financial institutions		(21,617,870)	(13,713,482)	(24,224,787)	(13,051,174)
Net increase in financial asset at fair value through profit or loss		(6,305,016)	(4,475,348)	(6,374,147)	(4,652,980)
Net increase in financial assets held under resale agreements		(10,945,682)	-	(4,999,500)	-
Net increase in loans and advances to customers		(191,314,243)	(113,112,779)	(190,587,015)	(111,703,210)
Net decrease in borrowings from central bank		-	(28,985,000)	-	(29,000,000)
Net decrease in financial liabilities at fair value through profit or loss		-	(308,102)	-	(308,102)
Net increase in financial assets held under repurchase agreements		(17,557,293)	(12,952,609)	(17,343,543)	(12,952,609)
Interest payments		(37,327,648)	(30,026,941)	(36,865,251)	(29,643,182)
Fee and commission payments		(764,956)	(529,772)	(752,114)	(528,039)
Payment to and for employees		(4,702,605)	(4,426,302)	(4,479,401)	(4,209,785)
Payment of various taxes		(6,683,602)	(3,617,487)	(6,606,937)	(3,505,414)
Payment for other operating activities		(3,200,427)	(5,263,219)	(3,101,763)	(4,918,240)
Sub-total of cash outflows		**(300,419,342)**	(232,296,142)	**(295,334,458)**	(229,227,898)
Net cash outflows from operating activities	V. 42(1)	**(21,732,994)**	(60,767,289)	**(17,043,595)**	(65,424,077)

The notes on pages 117 to 201 form part of these financial statements.

Bank of Shanghai Company Limited Consolidated cash flow statement and cash flow statement (continued)

(Expressed in thousands of Renminbi)

	Note	The Group		The Bank	
		2018	2017	2018	2017
Cash flows from investing activities:					
Proceeds from disposal of investments		568,044,584	865,773,123	562,077,724	876,164,871
Investment returns received		31,775,093	37,461,386	32,220,665	37,726,324
Net proceeds from disposal of long-term assets		7,458	26,658	7,315	26,181
Sub-total of cash inflows		**599,827,135**	**903,261,167**	**594,305,704**	**913,917,376**
Payment for acquisition of investments		(585,489,287)	(784,339,587)	(579,901,227)	(788,905,346)
Payment for acquisition of long-term assets		(1,432,173)	(498,855)	(1,420,435)	(487,798)
Sub-total of cash outflows		**(586,921,460)**	**(784,838,442)**	**(581,321,662)**	**(789,393,144)**
Net cash inflows from investing activities		**12,905,675**	**118,422,725**	**12,984,042**	**124,524,232**
Cash flows from financing activities:					
Proceeds from issuance of other equity instruments		-	19,957,170	-	19,957,170
Proceeds from subsidiaries' investors		1,475	-	-	-
Proceeds from issuance of debentures		882,832,219	595,399,798	870,490,039	592,170,164
Sub-total of cash inflows		**882,833,694**	**615,356,968**	**870,490,039**	**612,127,334**
Repayment of debt securities		(861,781,381)	(665,723,240)	(854,893,472)	(663,380,000)
Interest paid on debt securities		(7,488,019)	(2,629,736)	(7,477,945)	(2,627,511)
Dividends paid		(4,922,899)	(2,997,406)	(4,912,513)	(2,980,444)
Sub-total of cash outflows		**(874,192,299)**	**(671,350,382)**	**(867,283,930)**	**(668,987,955)**
Net cash inflow / (outflows) from financing activities		**8,641,395**	**(55,993,414)**	**3,206,109**	**(56,860,621)**
Effect of foreign exchange rate changes on cash and cash equivalents		514,763	(543,994)	334,553	(477,826)
Net (decrease) / increase in cash and cash equivalents	V. 42(2)	328,839	1,118,028	(518,891)	1,761,708
Add: cash and cash equivalents at the beginning of the year		**85,072,926**	**83,954,898**	**81,721,170**	**79,959,462**
Cash and cash equivalents at the end of the year	V. 42(3)	**85,401,765**	**85,072,926**	**81,202,279**	**81,721,170**

These financial statements were approved by the Board of Directors of the Bank on 19 April 2019.

Jin Yu
Chairman

Hu Youlian
President

Shi Hongmin
Vice President and
Chief Financial Officer

The notes on pages 117 to 201 form part of these financial statements.

Bank of Shanghai Company Limited Consolidated statement of changes in shareholders' equity

(Expressed in thousands of Renminbi)

	Note	For the year ended 31 December 2018									
		The Group									
		Attributable to equity shareholders of the Bank								Non-controlling interests	Total
		Paid-in capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Sub-total		
Balance at 1 January 2018		**7,805,785**	**19,957,170**	**28,452,203**	**(571,337)**	**26,435,300**	**25,780,256**	**39,125,759**	**146,985,136**	**456,267**	**147,441,403**
Changes in equity for the year											
1.Other comprehensive income		-	-	-	1,198,791	-	-	18,034,040	19,232,831	15,478	19,248,309
2. Shareholders' contributions											
- Contribution by non-controlling	V. 30	-	-	1,475	-	-	-	-	1,475	30,700	32,175
3. Appropriation of profits											
- Appropriation for surplus reserve	V. 32	-	-	-	-	4,534,254	-	(4,534,254)	-	-	-
- Appropriation for general reserve	V. 33	-	-	-	-	-	24,502	(24,502)	-	-	-
- Distributions to shareholders	V. 34	-	-	-	-	-	-	(4,942,893)	(4,942,893)	(10,386)	(4,953,279)
4. Transfers within equity											
- Share capital increased by capital reserve transfer	V. 30	3,122,314	-	(3,122,314)	-	-	-	-	-	-	-
Balance at 31 December 2018		**10,928,099**	**19,957,170**	**25,331,364**	**627,454**	**30,969,554**	**25,804,758**	**47,658,150**	**161,276,549**	**492,059**	**161,768,608**

	Note	For the year ended 31 December 2017									
		The Group									
		Attributable to equity shareholders of the Bank								Non-controlling interests	Total
		Paid-in capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Sub-total		
Balance at 1 January 2017		6,004,450	-	30,253,538	496,194	22,227,344	21,245,093	35,542,604	115,769,223	449,391	116,218,614
Changes in equity for the year											
1. Other comprehensive income		-	-	-	(1,067,531)	-	-	15,328,499	14,260,968	19,538	14,280,506
2. Shareholders' contributions											
- Contribution by holders of other equity instruments	V.29	-	19,957,170	-	-	-	-	-	19,957,170	-	19,957,170
3. Appropriation of profits											
- Appropriation for surplus reserve	V.32	-	-	-	-	4,207,956	-	(4,207,956)	-	-	-
- Appropriation for general reserve	V.33	-	-	-	-	-	4,535,163	(4,535,163)	-	-	-
- Distributions to shareholders	V.34	-	-	-	-	-	-	(3,002,225)	(3,002,225)	(12,662)	(3,014,887)
4. Transfers within equity											
- Share capital increased by capital reserve transfer	V.30	1,801,335	-	(1,801,335)	-	-	-	-	-	-	-
Balance at 31 December 2017		7,805,785	19,957,170	28,452,203	(571,337)	26,435,300	25,780,256	39,125,759	146,985,136	456,267	147,441,403

These financial statements were approved by the Board of Directors of the Bank on 19 April 2019.

Jin Yu
Chairman

Hu Youlian
President

Shi Hongmin
Vice President and
Chief Financial Officer

The notes on pages 117 to 201 form part of these financial statements.

Bank of Shanghai Company Limited Statement of changes in shareholders' equity

(Expressed in thousands of Renminbi)

	Note	For the year ended 31 December 2018							
		The Bank							
		Paid-in capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
Balance at 1 January 2018		**7,805,785**	**19,957,170**	**28,452,203**	**(789,144)**	**26,435,300**	**25,630,000**	**38,409,281**	**145,900,595**
Changes in equity for the year									
1. Other comprehensive income		-	-	-	1,288,396	-	-	17,680,442	18,968,838
2. Appropriation of profits									
- Appropriation for surplus reserve	V.32	-	-	-	-	4,534,254	-	(4,534,254)	-
- Distributions to shareholders	V.34	-	-	-	-	-	-	(4,942,893)	(4,942,893)
3. Transfers within equity									
- Share capital increased by capital reserve transfer	V.30	3,122,314	-	(3,122,314)	-	-	-	-	-
Balance at 31 December 2018		**10,928,099**	**19,957,170**	**25,329,889**	**499,252**	**30,969,554**	**25,630,000**	**46,612,576**	**159,926,540**

	Note	For the year ended 31 December 2017							
		The Bank							
		Paid-in capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
Balance at 1 January 2017		6,004,450	-	30,253,538	124,620	22,227,344	21,130,000	35,005,283	114,745,235
Changes in equity for the year									
1. Other comprehensive income		-	-	-	(913,764)	-	-	15,114,179	14,200,415
2. Shareholders' contributions									
- Contribution by holders of other equity instruments	V.29	-	19,957,170	-	-	-	-	-	19,957,170
3. Appropriation of profits									
- Appropriation for surplus reserve	V.32	-	-	-	-	4,207,956	-	(4,207,956)	-
- Appropriation for general reserve	V.33	-	-	-	-	-	4,500,000	(4,500,000)	-
- Distributions to shareholders	V.34	-	-	-	-	-	-	(3,002,225)	(3,002,225)
4. Transfers within equity									
- Share capital increased by capital reserve transfer	V.30	1,801,335	-	(1,801,335)	-	-	-	-	-
Balance at 31 December 2017		7,805,785	19,957,170	28,452,203	(789,144)	26,435,300	25,630,000	38,409,281	145,900,595

These financial statements were approved by the Board of Directors of the Bank on 19 April 2019.

Jin Yu
Chairman

Hu Youlian
President

Shi Hongmin
Vice President and
Chief Financial Officer

The notes on pages 117 to 201 form part of these financial statements.

Bank of Shanghai Company Limited Notes to the financial statements

I. General information

With the approval from the People's Bank of China (the PBOC), Bank of Shanghai Co., Ltd. (formerly known as Shanghai City United Bank Ltd., hereinafter referred to as the "Bank" or Bank of Shanghai) was incorporated in Shanghai, PRC, on 30 January 1996 as a joint-stock commercial bank. With the approval from PBOC, the Bank changed its name from Shanghai City United Bank Ltd. to Bank of Shanghai Company Limited on July 16, 1998.The Bank obtained a financial business certificate No.B0139H231000001 with the approval from the China Banking Regulatory Committee (the CBRC) and obtained a business license with unified social credit code 91310000132257510M issued by the Shanghai Municipal Administration of Industry and Commerce.

In 1999, pursuant to a shareholders' resolution and approval from the PBOC (Shanghai Yin Fu [1999] No. 722), the Bank increased its registered capital from RMB1,606 million to RMB2,000 million. The Bank issued 394 million new shares at a price of RMB2.12 per share with par value of RMB1 per share.

In 2001, pursuant to a shareholders' resolution and approval from the PBOC (Shanghai Yin Fu [2001] No. 436), the Bank increased its registered capital from RMB2,000 million to RMB2,600 million. The Bank issued 600 million new shares at a price of RMB2.49 per share with par value of RMB1 per share.

In 2010, pursuant to a shareholders' resolution and approval from the CBRC (Yin Jian Fu [2010] No. 62), the Bank increased its registered capital from RMB2,600 million to RMB2,900 million. The Bank issued 300 million new shares at a price of RMB12.43 per share with par value of RMB1 per share.

In 2010, pursuant to a shareholders' resolution and with approval from the CBRC (Yin Jian Fu [2010] No. 188), the Bank increased 1,334 million new ordinary shares to all the shareholders by transferring from capital reserve according to 0.46 share free for every 1 share. The share capital of the Bank was increased from RMB2,900 million to RMB4,234 million by transferring.

In 2013, pursuant to a shareholder's resolution and approval from the CBRC (Hu Yin Jian Fu [2013] No. 833), the Bank issued 470 million new shares at a price of RMB13.9 per share with par value of RMB1 per share. The share capital of the Bank was subsequently increased from RMB4,234 million to RMB4,704 million after the Bank obtained a renewed business license on February 2014.

Pursuant to the Shareholders' resolutions, approvals from the CBRC (Hu Yin Jian Fu [2014] No. 908 and Hu Yin Jian Fu [2015] No. 339), the Bank issued 700 million new shares in total at a price of RMB16.57 per share with per value of RMB1 per share in 2014 and 2015. The share capital of the Bank was subsequently increased from RMB4,704 million to RMB5,404 million after the Bank obtained a renewed business licence on June 2015.

Pursuant to the Shareholders' resolutions, approvals from the China Securities Regulatory Commission (the CSRC) (Zheng Jian Xu Ke [2016] No. 1638), the Bank issued 600.45 million common shares (A share) through initial public offering at a price of RMB17.77 per share in Nov 2016. On 16 Nov 2016, the shares was listed for transactions on Shanghai Stock Exchange. The share capital of the Bank was subsequently increased by RMB600 million. The Bank's registered capital was 6,004 million. The stock code of the Bank is 601229.

Pursuant to the Shareholders' resolutions, approvals from the CBRC (Hu Yin Jian Fu [2017] No. 398), the Bank increased 3 shares per 10 shares by capital reserve on basis of the share capital as at 31 December 2016 which was 6,004,450 thousand shares. The share capital of the Bank was increased by RMB1,801,335 thousand and increased to RMB7,805,785 thousand shares subsequently. In addition, pursuant to the Shareholders' resolutions, approvals from the CSRC (Zheng Jian Xu Ke [2017] No. 2197), the Bank privately issued 200 million preference shares at price of RMB100.00.

Pursuant to the Shareholders' resolutions, approvals from the CBRC (Hu Yin Jian Fu [2018] No. 517), the Bank increased 4 shares per 10 shares by capital reserve on basis of the share capital as at 31 December 2017 which was 7,805,785 thousand shares. The share capital of the Bank was increased by RMB3,122,314 thousand and increased to RMB10,928,099 thousand shares subsequently.

For the purpose of these financial statements, "Mainland China" refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. "Outside Mainland China" refers to Hong Kong, Macau, Taiwan and other countries and regions.

The principal activities of the Bank and its subsidiaries (hereinafter collectively referred to as the "Group") are the provision of wholesale financial business, retail financial business, investment banking, fund management, asset management and other financial services.

II. Basis of preparation

The financial statements have been prepared on the basis of going concern.

III.Significant accounting policies and accounting estimates of the Bank

1. Statement of compliance

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance (MOF) of the People's Republic of China (PRC). These financial statements present truly and completely the consolidated financial position and financial position of the Bank as at 31 December 2018, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Bank for the year then ended.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures by Companies Issuing Securities, No. 15: General Requirements for Financial Reports" as revised by the China Securities Regulatory Commission ("CSRC") in 2014.

2. Accounting year

The accounting year of the Group is from 1 January to 31 December.

3. Functional currency

The Bank's functional currency is Renminbi ("RMB") and these financial statements are presented in RMB. Functional currency is determined by the Group on the basis of the currency in which major income and costs are denominated and settled. The Bank translates the financial statements of subsidiaries from their respective functional currencies into the Bank's functional currency (see Note III.6) if the subsidiaries' functional currencies are not the same as that of the Bank.

4. Business combination and consolidated financial statements

(a) Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Where (1) the aggregate of the acquisition-date fair value of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds (2) the acquirer's interest in the acquisition-date fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill (see Note III.14). If (1) is less than (2), the difference is recognised in profit or loss for the current period. The costs of issuing equity or debt securities as a part of the consideration for the acquisition are included in the carrying amounts of these equity or debt securities upon initial recognition. Other acquisition-related costs are expensed when incurred. Any difference between the fair value and the carrying amount of the assets transferred as consideration is recognised in profit or loss. The acquiree's identifiable asset, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Group at their acquisition-date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

For a business combination involving entities not under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its acquisition-date fair value and recognises any resulting difference between the fair value and the carrying amount as investment income for the current period. In addition, any amount recognised in other comprehensive income that may be reclassified to profit or loss, in prior reporting periods relating to the previously-held equity interest, and any other changes in the owners' equity under equity accounting, are transferred to investment income in the period in which the acquisition occurs (see Note III.10(2)).

(b) Consolidated financial statements

General principles

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Bank and its subsidiaries. Control exists when the investor has all of following: power over the investee; exposure, or rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered. The financial position, financial performance and cash flows of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests are presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to non-controlling shareholders is presented separately in the consolidated income statement below the net profit line item. Total comprehensive income attributable to non-controlling shareholders is presented separately in the consolidated income statement below the total comprehensive income line item.

When the amount of loss for the current period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' share of the opening owners' equity of the subsidiary, the excess is still allocated against the non-controlling interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Bank, the Bank makes necessary adjustments to the financial statements of the subsidiary based on the Bank's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated when preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, unless they represent impairment losses that are recognised in the financial statements.

Subsidiaries acquired through a business combination

Where a subsidiary was acquired during the reporting period, through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements based on the carrying amounts of the assets and liabilities of the subsidiary in the financial statements of the ultimate controlling party as if the combination had occurred at the date that the ultimate controlling party first obtained control.

5. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements, and highly liquid short-term investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

6. Foreign currency transactions and foreign currency translation

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates on the dates of the transactions. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are generally recognised in profit or loss, unless they arise from the re-translation of the principal and interest of specific borrowings for the acquisition, and construction or production of qualifying assets. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rate at the date the fair value is determined. The resulting exchange differences are recognised in profit or loss, except for the differences arising from the re-translation of available-for-sale financial assets, which are recognised in other comprehensive income.

In translating the financial statements of a foreign operation, assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rate at the balance sheet date. Equity items, excluding retained earnings and the translation differences in other comprehensive income, are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in other comprehensive income with respect to a foreign operation are transferred to profit or loss in the period when the foreign operation is disposed.

7. Financial instruments

(1) Recognition and 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.

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 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.

Subsequent to initial recognition, financial assets and liabilities are measured 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 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, and changes therein are recognised in profit or loss.

- 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

• those that the Group intends to sell immediately or in the near future, which will be classified as held for trading;

• those that the Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or

• 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 deposits with central bank, deposits and placements with banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers and investment securities classified as receivables. Subsequent to initial recognition, loans and receivables are stated at amortised cost using the effective interest method.

- 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

• those that the Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or

• those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are measured 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.

Available-for-sale investments in equity instruments whose fair value cannot be measured reliably are measured at cost subsequent to initial recognition. Other available-for-sale financial assets are measured at fair value subsequent to initial recognition and changes therein are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses from monetary financial assets which are recognised directly in profit or loss. When an investment is derecognised, the gain or loss accumulated in other comprehensive income is reclassified to profit or loss. Dividend income is recognised in profit or loss when the investee approves the dividends. Interest is recognised in profit or loss using the effective interest method.

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Liabilities other than those arising from financial guarantee contracts as stated in Note III.22 are measured at amortised cost using the effective interest method.

(2) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised.

Objective evidence that a financial asset is impaired includes but is not limited to:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

(c) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(d) the disappearance of an active market for that financial asset because of financial difficulties faced by the issuer;

(e) significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of an investment in an equity instrument may not be recovered by the investor;

(f) a significant (i.e. a decline of 50%) or prolonged decline in the fair value (i.e. a decline persisting for 12 months 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 losses 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 groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

For homogeneous groups of loans and receivables 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.

Loans and receivables which are individually significant and therefore have been individually assessed but for which no objective evidence of impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and receivables that were impaired at the balance sheet date 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 judgement 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.

- Loans and receivables written-off and impairment reversal

If, in a subsequent period, the amount of the impairment losses on loans and receivables 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 a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan is written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

- Rescheduled loans and receivables

Rescheduled loans and receivables 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 and receivables are assessed individually and classified as impaired loans and advances upon restructuring. Rescheduled loans and receivables are subject to ongoing monitoring. Once a rescheduled loan or receivables meets specific conditions, it is no longer considered as impaired.

- Held-to-maturity investments

Held-to-maturity investments are assessed for impairment on an individual basis and on a collective group basis as follows.

Where impairment is assessed on an individual basis, the impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. Impairment losses are recognised in profit or loss.

The assessment is made collectively where held-to-maturity investments share similar credit risk characteristics (including those not having been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable factors reflecting current economic conditions.

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

Available-for-sale financial assets are assessed for impairment on an individual and / or on a collective group basis. 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 losses on that financial asset previously recognised in profit or loss.

If, after an impairment loss has been recognised on available-for-sale debt instruments, the fair value of the assets increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was 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. The impairment loss on an investment in unquoted equity instrument whose fair value cannot be reliably measured is not reversed.

When there are impairments on equity investments where the Group does not have control, joint control or significant influence, and the investments are not quoted in an active market and their fair value cannot be reliably measured, the Group will recognise the difference between their carrying values and the present values of similar assets discounted at future cash flow based on their current market yields, which are accounted for as impairment losses in profit or loss. Such impairment losses cannot be reversed.

(3)Derecognition of financial assets and financial liabilities

A 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;

- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity.

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 its contractual obligation (or part of it) is discharged or 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.

(4) Presentation of financial assets and financial liabilities

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.

(5) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity. Consideration and transaction costs paid by the Bank for repurchasing self-issued equity instruments are deducted from shareholders' equity.

(6) Preference shares

At initial recognition, the Group classifies the preference shares issued 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.

Preference shares 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 preference shares and perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

8. Financial assets held under resale and sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

9. Precious metals

Precious metals represent gold and silver. Precious metals that are acquired by the Group are initially recognised at fair value when they are obtained or repurchased and subsequently carried at fair value, with changes in fair value recognised in profit or loss.

10. Long-term equity investments

(a) Investment cost of long-term equity investments

For a long-term equity investment acquired through a business combination not involving enterprises under common control, the initial cost comprises the aggregate of the fair value of assets transferred, liabilities incurred or assumed, and equity securities issued by the Bank, in exchange for control of the acquiree.

A long-term equity investment acquired other than through a business combination is initially recognised at the amount of cash paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

(b) Subsequent measurement of long-term equity investment

Investments in subsidiaries

In the Bank's separate financial statements, long-term equity investments in subsidiaries are accounted for using the cost method for subsequent measurement unless the investment is classified as held for sale (see Note III.31). Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Bank recognises its share of the cash dividends or profit distributions declared by the investee as investment income for the current period.

The investments in subsidiaries are stated in the balance sheet at cost less accumulated impairment losses. For the impairment of the investments in subsidiaries, refer to Note III.15.

In the Group's consolidated financial statements, subsidiaries are accounted for in accordance with the policies described in Note III.4.

Investment in joint ventures and associates

A joint venture is an arrangement whereby the Group and other parties have joint control and rights to the net assets of the arrangement.

An associate is an enterprise over which the Group has significant influence.

An investment in a joint venture or an associate is accounted for using the equity method for subsequent measurement.

The accounting treatments under the equity method adopted by the Group are as follows:

- Where the initial cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is recognised in profit or loss.

- After the acquisition of the investment, the Group recognises its share of the investee's profit or loss and other comprehensive income as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by the amount attributable to the Group. Changes in the Group's share of the investee's owners' equity, other than those arising from the investee's net profit or loss, other comprehensive income or profit distribution (referred to as "other changes in owners' equity"), is recognised directly in the Group's equity, and the carrying amount of the investment is adjusted accordingly.

- In calculating its share of the investee's net profits or losses, other comprehensive income and other changes in owners' equity, the Group recognises investment income and other comprehensive income after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair value of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses resulting from transactions between the Group and its associates or joint ventures are eliminated in the same way as unrealised gains but only to the extent that there is no impairment.

- The Group discontinues recognising its share of further losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the joint venture or associate is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. If the joint venture or associate subsequently reports net profits, the Group resumes recognising its share of those profits only after its share of the profits has fully covered the share of losses not recognised.

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For the impairment of the investments in joint ventures and associates, refer to Note III.15.

(c) Criteria for determining the existence of joint control or significant influence over an investee

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (activities with significant impact on the returns of the arrangement) require the unanimous consent of the parties sharing control.

The following factors are usually considered when assessing whether the Group can exercise joint control over an investee:

- Whether no single participant party is in a position to control the investee's related activities unilaterally;

- Whether strategic decisions relating to the investee's related activities require the unanimous consent of all participant parties that sharing of control.

Significant influence is the power to participate in the financial and operating policy decisions of an investee but does not have control or joint control over those policies.

11. Fixed assets and construction in progress

Fixed assets represent tangible assets held by the Group for administrative purposes with useful lives over one accounting year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note III.15). Construction in progress is stated in the balance sheet at cost less impairment loss (see Note III.15).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use.

Where the parts of an item of fixed assets have different useful lives or provide benefits to the Group in different patterns, thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets 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 fixed assets are recognised in profit or loss as incurred.

The carrying amount of a fixed asset is derecognised:

- When the fixed asset is for disposal; or

- When no future economic benefit is expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of fixed assets 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.

The cost of fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Types of assets	Estimated useful lives	Estimated residual values	Depreciation rates
Premises	20 - 30 years	5%	3.17% ~ 4.75%
Electronic equipment	10 years	5%	9.5%
Furniture and fixtures	3 - 5 years	5%	19% ~ 31.67%
Motor vehicles	5 years	5%	19%

Useful lives, estimated residual values and depreciation methods are reviewed at least each year-end.

The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to working condition for its intended use. Construction in progress is transferred to fixed assets when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

12. Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note III.15). For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised using the straight-line method over its estimated useful life.

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The respective amortisation periods for intangible assets are as follows:

Types of assets	Amortisation period (years)
Land use right	20 - 50 years
Software	3 - 5 years
Other intangible assets	10 - 20 years

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. At the end of the balance sheet, the Group does not have any intangible assets with indefinite useful lives.

13. 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. Repossessed assets is initially recognised at fair value and subsequently carried at lower of the carrying amount and the recoverable amount. If the recoverable amount of an repossessed asset is less than its carrying amount, the carrying amount of the repossessed asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss. Repossessed assets are not depreciated nor amortised. The impairment losses of initial measurement and subsequent re-measurement are charged to profit or loss.

Impairment losses on repossessed assets are accounted for in accordance with the accounting policies as set out in Note III.15.

14. Goodwill

The initial cost of goodwill represents the excess of cost of acquisition over the acquirer's interest in the fair value of the identifiable net assets of the acquiree under a business combination not involving enterprises under common control.

Goodwill is not amortised and is stated in the balance sheet at cost less accumulated impairment losses (see Note III.15). On disposal of an asset group or a set of asset groups, any attributable goodwill is written off and included in the calculation of the profit or loss on disposal.

15. Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets and construction in progress
- intangible assets
- long-term equity investments
- repossessed assets
- goodwill
- long-term deferred expenses and etc.

If any indication exists, the recoverable amount of the asset is estimated. In addition, the Group estimates [the recoverable amounts of intangible assets not ready for use at least annually and] the recoverable amounts of goodwill [and intangible assets with indefinite useful lives] at each year-end, irrespective of whether there is any indication of impairment. Goodwill is allocated to each asset group or set of asset groups, which is expected to benefit from the synergies of the combination for the purpose of impairment testing.

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value (Note III.16) less costs to sell and its present value of expected future cash flows. An asset group is composed of assets directly related to cash-generation and 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.

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 an appropriate pre-tax discount rate.

An impairment loss is recognised in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

16. Fair value measurement

Unless otherwise specified, the Group determines fair value measurement as below:

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.

When measuring fair value, the Group takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date, and uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

17. Employee benefits

(a) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or accured at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(b) Post-employment benefits - defined contribution plans

The defined contribution plans in which the Group participated include:

- Pursuant to the relevant laws and regulations of the People's Republic of China, the Group participated in a defined contribution basic pension insurance and unemployment insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance and unemployment insurance plans based on the applicable benchmarks and rates stipulated by the government;

- Pursuant to "Trial Measures for Enterprise Annuity" (Order of the Ministry of Labor and Social Security of the People's Republic of China No. 20), the Group's employees participated in the enterprise annuity plan that was approved by the Board of Directors and submitted to the labor and social security authority. The Group makes contributions calculated in accordance with the annuity plan scheme.

- Eligible employees in the Bank's overseas subsidiaries participated in local contribution schemes. The Bank's overseas subsidiaries make contributions for the employees in accordance with local laws and regulations.

Defined contributions are recognised as part of the cost of assets or charged to profit or loss as the related services are rendered by the employees.

(c) Termination benefits

When the Group terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

- When the Group cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;

- When the Group has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

(d) Other long-term employee benefits

The Group recognises the deferred award provided for employees and the deferred payment of salaries to key management based on business performance during the periods of service provided by employees and key management, as liabilities and as part of the cost of assets or charged to profit or loss.

18. Government grants

Government grants are non-reciprocal transfers of monetary or non-monetary assets from the government to the Group except for capital contributions from the government in the capacity as an investor in the Group. A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value.

Government grants related to assets are grants whose primary condition is that the Group qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants related to income are grants other than those related to assets. A grant that compensates the Group for expenses or losses to be incurred in the future is recognised as deferred income, and included in other income or non-operating income in the periods in which the expenses or losses are recognised. Or included in other income or non-operating income directly.

19. Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset only if the Group has a legally enforceable right to set them off and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and deferred tax 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, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or deductible loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, deferred tax is measured based on the tax consequences that would follow from the expected manner of recovery or settlement of the carrying amounts of the assets and liabilities, using tax rates enacted at the reporting date that are expected to be applied in the period when the asset is recovered or the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and deferred tax liabilities are offset if all of the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and current tax assets;

- different taxable entities which intend either to settle the current tax liabilities and current tax assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered.

20. Operating leases

(a) Operating lease charges

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are expensed as incurred.

(b) Assets leased out under operating leases

Fixed assets leased out under operating leases are depreciated in accordance with the Group's depreciation policies described in Note III.11. Impairment losses are recognised in accordance with the accounting policies described in Note III.15. Income derived from operating leases is recognised in profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent rentals are recognised as income as they are earned.

21. Provisions

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. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows. 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 there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome;

- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

22. Financial guarantees

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 terms of a debt instrument. Liabilities arising from financial guarantees are recognised initially at fair value and the initial fair value is amortised over the life of the guarantee. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contracts has become probable. Financial guarantees are included within other liabilities.

23. Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

24. Income recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group's ordinary activities when the inflows result in increase in shareholders' equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following conditions are met:

(a) 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 Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment losses.

(b) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognised as fee and commission income upon its expiry.

(c) Dividend income

Dividend income from unlisted equity investment is recognised in profit or loss on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

(d) Other income

Other income is recognised on an accrual basis.

25. Expenses

(a) 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.

(b) Other expenses

Other expenses are recognised on an accrual basis.

26. Dividend distribution

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the end of the Relevant Periods, are not recognised as a liability at the end of the Relevant Periods but disclosed in the notes to the financial statements separately.

27. Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties.

In addition to the related parties stated above, the Group determines related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC, the Administrative Measures on Affiliated Transactions between Commercial Banks and their Insiders or Shareholders issued by the CBRC and the Provisional Measures on Administration of Equities of Commercial Banks issued by the CBRC.

28. Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have the similar economic characteristics and are same or similar in respect of the nature of each segment's products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of the actual transaction prices for such transactions for segment reporting. Segment accounting policies are consistent with those for the consolidated financial statements.

29. Significant accounting estimates and judgments

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved 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.

(1) Significant accounting estimates

Except for accounting estimates relating to depreciation and amortisation of assets such as fixed assets and intangible assets (see Notes III.11 and 12) and provision for impairment of various types of assets (see Notes V.2, 3, 6, 8, 9, 10, 11, 12, 13, 14 and 16). Other significant accounting estimates are as follows:

(i) Note V.15: Recognition of deferred tax assets;

(ii) Note XV: Fair value measurements of financial instruments and investment properties.

(2) Significant accounting judgements

Significant judgements made by the Group in the application of accounting policies are as follows:

(i) Note V.29: Preference shares classified as financial liabilities or equity instruments; and

(ii) Note VI: Significant judgements and assumptions in determining control, joint control or significant influence over other entity.

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30. Changes in significant accounting policies and accounting estimates

(a) Description and reasons of changes in accounting policies

The MOF issued the following revised regulations and interpretations in 2017 and 2018:

- CAS Bulletin No.9 - Accounting of Net Investment Losses under Equity Method

- CAS Bulletin No.10 - Applying Revenue-based Depreciation Method on Fixed Assets

- CAS Bulletin No.11 - Applying Revenue-based Amortisation Method on Intangible Assets

- CAS Bulletin No.12 - Determination of Whether the Provider and Receiver of Key Management Personnel Services are Related Parties (collectively the "CAS Bulletins No.9-12")

- Notice on Revision of the 2018 Illustrative Financial Statements (Caikuai [2018] No.15) and related interpretation

The Group has applied the above new / revised regulations and interpretations since 1 January 2018 and adjusted the related accounting policies.

Major impacts of the adoption of the above revised regulations and interpretations are as follows:

(a) CAS Bulletins No.9-12

The Group has reviewed the relevant accounting policies in accordance with the requirements related to the accounting of net investment losses under equity method, the depreciation and amortisation methods of fixed assets and intangible assets and the related party identification and disclosure of key management personnel services of CAS Bulletins No.9-12.The adoption of CAS Bulletins No.9-12 does not have material impact on the financial position and financial performance of the Group.

(b) Presentation of financial statements

The Group has prepared financial statements for the year ended 31 December 2018 in accordance with the presentation format of the financial statements specified in Caikuai [2018] No.15 and related interpretation. The adoption of the presentation format of the financial statements does not have material impact on the financial position and financial performance of the Group.

IV. Taxation

The Bank and its domestic subsidiaries' main applicable taxes and tax rates are as follows:

Tax type	Tax basis and Tax rate
Value-added tax (VAT)	Output VAT is calculated on 6% of the product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period. Part of VAT is calculated on 3% ~ 17% of the product sales and taxable services revenue.
City maintenance and construction tax	1%-7% of VAT paid
Education surcharge	4%-5% of and VAT paid
Income tax	25% of taxable income

Shanghai Minhang BoS Rural Bank Co., Ltd. ("Minhang Rural"), Jiangsu Jiangning BoS Rural Bank Co., Ltd. ("Jiangning Rural"), Chongzhou BoS Rural Bank Co., Ltd. ("Chongzhou Rural") and Zhejiang Quzhou Qujiang BoS Rural Bank Co., Ltd. ("Qujiang Rural"), as subsidiary of the Bank, is calculated on taxable services revenue's 3% for the VAT according to Simple tax method.

Overseas subsidiaries pay income tax according to local regulations.

(Expressed in thousands of Renminbi,unless otherwise stated) Notes to the financial statements 132

V. Notes to the consolidated financial statements

1. Cash and deposits with central bank

	Note	The Group		The Bank	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Cash on hand		2,127,633	2,072,258	2,114,180	2,063,514
Deposits with domestic central bank					
- Statutory deposit reserves	(i)	118,433,114	123,011,258	118,180,554	122,756,503
- Surplus deposit reserves	(ii)	24,257,734	10,224,071	24,126,432	10,113,157
- Fiscal deposits		172,986	178,338	172,986	178,338
- Foreign exchange risk reserves	(iii)	92,842	411,831	92,842	411,831
Deposits with overseas central banks	(iv)	21,466	165,889	-	-
Sub-total		**142,978,142**	**133,991,387**	**142,572,814**	**133,459,829**
Total		**145,105,775**	**136,063,645**	**144,686,994**	**135,523,343**

(i) The Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the Relevant Periods, the statutory deposit reserve ratios applicable to the Bank and its domestic subsidiaries were as follows:

	31 December 2018	31 December 2017
Reserve ratio for RMB deposits	9.0%-12.0%	8.0%-14.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%

(ii) The surplus deposit reserves are maintained with the PBOC for clearing purposes.

(iii) The foreign exchange risk reserves placed the contracted value of foreign exchange forward sales in accordance with the related notice issued by the PBOC.

(iv) Deposits with overseas central banks are funds maintained with the overseas central banks by subsidiaries overseas for clearing purposes.

2. Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Deposits in mainland China				
- Banks	6,846,596	30,543,986	6,186,608	29,739,203
- Other financial institutions	4,304,178	5,925,670	4,302,018	5,922,030
Deposits outside mainland China				
- Banks	3,939,656	2,318,480	2,731,245	2,083,641
Total	**15,090,430**	**38,788,136**	**13,219,871**	**37,744,874**

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3. Placements with banks and other financial institutions

Analysed by type and location of counterparty

	Note	The Group		The Bank	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Placements in mainland China					
- Banks		1,375,900	4,784,625	1,375,900	3,124,320
- Other financial institutions		110,694,805	86,812,026	110,584,950	86,826,994
Placements outside mainland China					
- Banks		2,277,945	4,225,395	756,745	1,822,520
- Other financial institutions		1,031,925	1,383,162	1,031,925	1,383,162
Total		**115,380,575**	**97,205,208**	**113,749,520**	**93,156,996**
Less: Provision for impairment losses	V. 17	(36,223)	(26,799)	(32,683)	(26,799)
Carrying amount		**115,344,352**	**97,178,409**	**113,716,837**	**93,130,197**

At 31 December 2018, the Group's placements with its own non-principal-guaranteed wealth management products amounted to RMB14,951 million (RMB21,735 million as at 31 December 2017). In 2018, the Group's maximum exposure of placements with its own non-principal-guaranteed wealth management products amounted to RMB22,317 million (2017: RMB36,809 million).

4. Financial assets at fair value through profit or loss

	Note	The Group		The Bank	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Debt instruments held for trading					
- Government		687,875	-	671,015	-
- Policy banks		3,356,693	139,898	3,356,693	139,898
- Banks and other financial institutions		750,023	1,949,966	750,023	1,949,966
- Other entities	(i)	12,697,506	8,993,473	12,697,506	8,950,793
Sub-total	(ii)	**17,492,097**	11,083,337	**17,475,237**	11,040,657
Equity instruments held for trading					
- Stocks	(iii)	173,748	245,402	-	-
- Fund	(iv)	167,838	215,362	-	-
- Other		20,675	346	-	-
Sub-total		**362,261**	461,110	-	-
Debt instruments designated at fair value through profit or loss					
- Banks and other financial institutions		-	9,790	-	9,790
- Other institutions		20,003	-	-	-
Sub-total	(ii)	**20,003**	9,790	-	-
Total		**17,874,361**	11,554,237	**17,475,237**	11,050,447

(i) Debt instruments held for trading issued by other entities mainly represented bonds issued by various domestic enterprises.

(ii) The above debt instruments held for trading and debt investment instruments designated at fair value through profit or loss - banks and other financial institutions represented bonds and bills traded in China domestic interbank bond market. The above debt financial assets designated at fair value through profit or loss – other institutions mainly represented non listed RMB bills issued in other foreign institutions.

(iii) The above stocks held for trading mainly represented listed stocks issued in mainland China.

(iv) The above fund held for trading represented unlisted fund issued in mainland China.

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5. Derivative financial assets and liabilities

	As at 31 December 2018					
	The Group			The Bank		
	Notional amount	Fair Value		Notional amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives	1,262,722,187	32,024	(41,906)	1,261,667,308	18,239	(36,802)
Currency derivatives	400,245,427	1,205,555	(781,442)	392,086,941	1,190,536	(744,000)
Commodity derivatives	5,949,105	-	(5,935)	5,949,105	-	(5,935)
Other derivatives	62,600	37	(357)	62,600	37	(357)
Total	**1,668,979,319**	**1,237,616**	**(829,640)**	**1,659,765,954**	**1,208,812**	**(787,094)**

	As at 31 December 2017					
	The Group			The Bank		
	Notional amount	Fair Value		Notional amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives	1,616,654,847	27,041	(13,497)	1,615,720,265	17,226	(13,497)
Currency derivatives	363,224,187	806,638	(1,338,047)	362,187,822	800,178	(1,321,973)
Commodity derivatives	1,911,793	5,409	(7,798)	1,911,793	5,409	(7,798)
Total	**1,981,790,827**	**839,088**	**(1,359,342)**	**1,979,819,880**	**822,813**	**(1,343,268)**

The notional value indicates the contractual value of the derivative transactions outstanding at the balance sheet date. It does not represent the amounts at risk.

6. Financial assets held under resale agreements

(1) Analysed by type of collateral

	Note	The Group		The Bank	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Securities					
- Government bonds		4,455,000	5,055,854	4,455,000	5,055,854
- Bonds issued by banks and other financial institutions		3,205,800	7,106,952	3,205,800	7,106,952
- Bonds issued by other institutions		5,999,400	-	5,999,400	-
Sub-total		**13,660,200**	12,162,806	**13,660,200**	12,162,806
Bank certificate of deposit		14,744,316	13,781,499	14,744,316	11,533,155
Equity		8,194,526	-	**28,404,516**	**23,695,961**
Total		**36,599,042**	25,944,305		
Less: Provision for impairment losses	V. 17	**(230,418)**	(135,454)	-	-
Carrying amount		**36,368,624**	25,808,851	**28,404,516**	23,695,961

(2) Analysed by type and location of counterparty

	Note	The Group		The Bank	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
In mainland China					
- Banks		4,951,000	10,314,140	4,951,000	10,314,140
- Other financial institutions		31,648,042	15,630,165	23,453,516	13,381,821
Total		**36,599,042**	25,944,305	**28,404,516**	**28,404,516**
Less: Provision for impairment losses	V. 17	**(230,418)**	(135,454)	-	-
Carrying Amount		**36,368,624**	25,808,851	**28,404,516**	23,695,961

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7. Interests receivable

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Debt instruments	5,801,284	5,076,964	5,748,488	5,050,189
Loans and advances to customers	3,032,855	1,893,701	2,936,431	1,816,757
Placements with banks and other financial institutions	626,023	292,743	626,505	292,631
Financial assets held under resale agreements	180,463	27,350	161,646	15,768
Deposits with central bank, banks and other financial institutions	119,652	389,668	113,907	372,237
Total	**9,760,277**	7,680,426	**9,586,977**	7,547,582

8. Loans and advances to customers

(1) Analysed by natures

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Corporate loans and advances	**534,269,554**	446,591,730	**515,703,898**	428,509,476
Personal loans and advances				
- Personal consumption loans	157,475,662	69,253,364	157,059,630	68,837,611
- Property mortgages	72,768,999	64,532,841	72,735,842	64,516,637
- Credit cards	30,953,025	24,842,719	30,953,025	24,842,719
- Personal business loans	15,623,530	15,422,125	15,087,765	14,893,621
Sub-total	**276,821,216**	174,051,049	**275,836,262**	173,090,588
Discounted bills	**39,604,885**	43,378,838	**39,585,824**	43,353,938
Gross balance	**850,695,655**	664,021,617	**831,125,984**	644,954,002
Less: Provision for impairment losses				
- Individually assessed	(5,004,967)	(4,289,640)	(4,857,085)	(4,028,006)
- Collectively assessed	(27,330,492)	(16,540,653)	(27,113,936)	(16,318,601)
Total provision for impairment losses	**(32,335,459)**	(20,830,293)	**(31,971,021)**	(20,346,607)
Carrying amount	**818,360,196**	643,191,324	**799,154,963**	624,607,395

As at the balance sheet date, part of the above loans and advances to customers were pledged assets (Note X.1).

(2) Analysed by type of collateral

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Unsecured loans	294,628,602	164,919,131	292,648,265	159,231,836
Guaranteed loans	159,186,326	147,244,504	149,699,190	137,498,425
Loans secured by tangible assets	275,575,575	213,133,931	274,543,166	212,027,033
Loans secured by monetary assets	121,305,152	138,724,051	114,235,363	136,196,708
Gross balance	**850,695,655**	664,021,617	**831,125,984**	644,954,002
Less: Provision for impairment losses				
- Individually assessed	(5,004,967)	(4,289,640)	(4,857,085)	(4,028,006)
- Collectively assessed	(27,330,492)	(16,540,653)	(27,113,936)	(16,318,601)
Total provision for impairment losses	**(32,335,459)**	(20,830,293)	**(31,971,021)**	(20,346,607)
Carrying amount	**818,360,196**	643,191,324	**799,154,963**	624,607,395

(Expressed in thousands of Renminbi,unless otherwise stated) Notes to the financial statements 136

(3) Analysed by industrial sector

	As at 31 December 2018				As at 31 December 2017			
	The Group		The Bank		The Group		The Bank	
	Amount	%	Amount	%	Amount	%	Amount	%
Real estate	128,229,633	15.07	124,123,624	14.93	91,483,798	13.78	87,479,769	13.56
Leasing and commercial services	122,709,591	14.42	121,372,242	14.60	100,474,715	15.13	100,116,065	15.52
Manufacturing	65,573,181	7.71	65,258,177	7.85	58,373,887	8.79	57,371,061	8.90
Wholesale and retail	51,152,970	6.01	49,940,265	6.01	54,333,821	8.18	52,801,929	8.19
Public utilities	48,972,712	5.76	48,597,685	5.85	45,124,402	6.80	44,186,086	6.85
Construction	25,368,172	2.98	25,099,966	3.02	16,877,230	2.54	16,519,616	2.56
Financial services	23,517,516	2.76	14,788,720	1.78	20,247,009	3.05	12,880,341	2.00
Communication, software and IT services	16,646,874	1.96	16,119,544	1.94	10,653,383	1.60	10,497,878	1.63
Transportation, storage and postal services	15,249,265	1.79	14,774,939	1.78	13,981,002	2.11	13,351,306	2.07
Culture, sports and entertainment	11,225,369	1.32	11,128,465	1.34	8,704,215	1.31	8,484,277	1.32
Mining	6,904,682	0.81	6,904,682	0.83	5,750,953	0.87	5,217,050	0.81
Agriculture and farming	6,248,852	0.73	6,099,405	0.73	6,249,871	0.94	5,954,733	0.92
Education and research	5,557,595	0.65	4,801,151	0.58	4,750,153	0.72	4,109,824	0.64
OthersCulture, sports and entertainment	6,913,142	0.83	6,695,033	0.81	9,587,291	1.44	9,539,541	1.47
Sub-total of corporate loans and advances	**534,269,554**	**62.80**	**515,703,898**	**62.05**	**446,591,730**	**67.26**	**428,509,476**	**66.44**
Personal loans and advances	276,821,216	32.54	275,836,262	33.19	174,051,049	26.21	173,090,588	26.84
Discounted bills	39,604,885	4.66	39,585,824	4.76	43,378,838	6.53	43,353,938	6.72
Gross balance	**850,695,655**	**100.00**	**831,125,984**	**100.00**	**664,021,617**	**100.00**	**644,954,002**	**100.00**
Less: Provision for impairment losses								
- Individually assessed	(5,004,967)		(4,857,085)		(4,289,640)		(4,028,006)	
- Collectively assessed	(27,330,492)		(27,113,936)		(16,540,653)		(16,318,601)	
Total provision for impairment losses	**(32,335,459)**		**(31,971,021)**		**(20,830,293)**		**(20,346,607)**	
Carrying amount	**818,360,196**		**799,154,963**		**643,191,324**		**624,607,395**	

(4) Analysed by geographical sector

	As at 31 December 2018		As at 31 December 2017	
	The Group	The Bank	The Group	The Bank
Shanghai	423,022,897	421,442,898	283,110,502	281,563,037
Yangtze River Delta (excluding Shanghai)	158,915,211	158,510,797	155,183,207	154,571,005
Pearl River Delta (including Hong Kong)	143,944,535	126,686,014	118,964,819	102,370,944
Bohai Rim	97,434,522	97,434,522	82,370,257	82,370,257
Central and Western	27,378,490	27,051,753	24,392,832	24,078,759
Gross balance	**850,695,655**	**831,125,984**	**664,021,617**	**644,954,002**
Less: Provision for impairment losses				
- Individually assessed	(5,004,967)	(4,857,085)	(4,289,640)	(4,028,006)
- Collectively assessed	(27,330,492)	(27,113,936)	(16,540,653)	(16,318,601)
Total provision for impairment losses	**(32,335,459)**	**(31,971,021)**	**(20,830,293)**	**(20,346,607)**
Carrying amount	**818,360,196**	**799,154,963**	**643,191,324**	**624,607,395**

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(5) Overdue loans and advances analysed by type of collateral and overdue period

	The Group				
	As at 31 December 2018				
	Overdue within three months (inclusive)	Overdue between three months and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Unsecured loans	1,841,648	1,166,120	59,786	-	3,067,554
Guaranteed loans	2,481,888	2,765,696	581,503	14,804	5,843,891
Loans secured by tangible assets	1,648,220	2,155,983	524,149	105,845	4,434,197
Loans secured by monetary assets	701,323	164,588	78,490	58,480	1,002,881
Total	**6,673,079**	**6,252,387**	**1,243,928**	**179,129**	**14,348,523**

	The Group				
	As at 31 December 2017				
	Overdue within three months (inclusive)	Overdue between three months and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Unsecured loans	592,055	721,756	79,446	-	1,393,257
Guaranteed loans	337,259	1,009,356	1,108,330	32,260	2,487,205
Loans secured by tangible assets	697,948	745,087	1,201,283	141,096	2,785,414
Loans secured by monetary assets	13,145	176,887	64,142	58,480	312,654
Total	**1,640,407**	**2,653,086**	**2,453,201**	**231,836**	**6,978,530**

	The Bank				
	As at 31 December 2018				
	Overdue within three months (inclusive)	Overdue between three months and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Unsecured loans	1,841,548	1,166,120	59,786	-	3,067,454
Guaranteed loans	2,481,022	2,654,046	465,272	14,804	5,615,144
Loans secured by tangible assets	1,631,332	2,153,349	524,149	105,845	4,414,675
Loans secured by monetary assets	701,323	164,588	78,490	58,480	1,002,881
Total	**6,655,225**	**6,138,103**	**1,127,697**	**179,129**	**14,100,154**

	The Bank				
	As at 31 December 2017				
	Overdue within three months (inclusive)	Overdue between three months and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Unsecured loans	591,945	721,726	79,164	-	1,392,835
Guaranteed loans	318,921	766,899	1,094,842	32,260	2,212,922
Loans secured by tangible assets	693,000	726,516	1,132,238	141,096	2,692,850
Loans secured by monetary assets	13,145	176,887	64,142	58,480	312,654
Total	**1,617,011**	**2,392,028**	**2,370,386**	**231,836**	**6,611,261**

Overdue loans represent loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more.

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(6) Analysed by assessment method of provision for impairment losses

The Group — As at 31 December 2018

	Loans and advances for which provision is collectively assessed	Impaired loans and advances (i): for which provision is collectively assessed	Impaired loans and advances (i): for which provision is individually assessed	Total	Gross impaired loans and advances as a % of gross loans and advances
Gross balance	840,983,958	1,693,140	8,018,557	850,695,655	1.14
Less: Provision for impa irment losses	(25,900,364)	(1,430,128)	(5,004,967)	(32,335,459)	
Carrying amount	**815,083,594**	**263,012**	**3,013,590**	**818,360,196**	

The Group — As at 31 December 2017

	Loans and advances for which provision is collectively assessed	Impaired loans and advances (i): for which provision is collectively assessed	Impaired loans and advances (i): for which provision is individually assessed	Total	Gross impaired loans and advances as a % of gross loans and advances
Gross balance	656,378,112	1,024,619	6,618,886	664,021,617	1.15
Less: Provision for impa irment losses	(15,633,213)	(907,440)	(4,289,640)	(20,830,293)	
Carrying amount	**640,744,899**	**117,179**	**2,329,246**	**643,191,324**	

The Bank — As at 31 December 2018

	Loans and advances for which provision is collectively assessed	Impaired loans and advances (i): for which provision is collectively assessed	Impaired loans and advances (i): for which provision is individually assessed	Total	Gross impaired loans and advances as a % of gross loans and advances
Gross balance	821,648,684	1,682,233	7,795,067	831,125,984	1.14
Less: Provision for impa irment losses	(25,693,629)	(1,420,307)	(4,857,085)	(31,971,021)	
Carrying amount	**795,955,055**	**261,926**	**2,937,982**	**799,154,963**	

The Bank — As at 31 December 2017

	Loans and advances for which provision is collectively assessed	Impaired loans and advances (i): for which provision is collectively assessed	Impaired loans and advances (i): for which provision is individually assessed	Total	Gross impaired loans and advances as a % of gross loans and advances
Gross balance	637,651,017	995,505	6,307,480	644,954,002	1.13
Less: Provision for impa irment losses	(15,432,751)	(885,850)	(4,028,006)	(20,346,607)	
Carrying amount	**622,218,266**	**109,655**	**2,279,474**	**624,607,395**	

(i) Impaired loans and advances to customers include loans and advances for which objective evidence of impairment exists. These loans and advances include loans and advances for which objective evidence of impairment has been identified:

- individually, or

- collectively; that is the portfolios of homogeneous loans and advances.

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(7) Movements of provision for impairment losses

	The Group			
	2018			
	Provision for impairment losses which is collectively assessed	Provision for impaired loans and advances		Total
		collective assessement	individual assessement	
As at 1 January	(15,633,213)	(907,440)	(4,289,640)	(20,830,293)
Charge for the year	(10,256,674)	(1,685,026)	(5,015,025)	(16,956,725)
Release during the year	1,354	-	1,653,170	1,654,524
Recoveries	-	(96,525)	(442,675)	(539,200)
Unwinding of discount	-	-	117,926	117,926
Write-offs	-	1,259,096	2,977,890	4,236,986
Others	(11,831)	(233)	(6,613)	(18,677)
As at 31 December	**(25,900,364)**	**(1,430,128)**	**(5,004,967)**	**(32,335,459)**

	The Group			
	2017			
	Provision for impairment losses which is collectively assessed	Provision for impaired loans and advances		Total
		collective assessement	individual assessement	
As at 1 January	(11,830,337)	(726,586)	(4,045,852)	(16,602,775)
Charge for the year	(3,817,513)	(388,002)	(3,379,295)	(7,584,810)
Release during the year	-	-	1,501,839	1,501,839
Recoveries	-	(96,234)	(621,071)	(717,305)
Unwinding of discount	-	-	105,336	105,336
Write-offs	-	302,717	2,142,068	2,444,785
Others	14,637	665	7,335	22,637
As at 31 December	**(15,633,213)**	**(907,440)**	**(4,289,640)**	**(20,830,293)**

	The Bank			
	2018			
	Provision for impairment losses which is collectively assessed	Provision for impaired loans and advances		Total
		collective assessement	individual assessement	
As at 1 January	(15,432,751)	(885,850)	(4,028,006)	(20,346,607)
Charge for the year	(10,256,674)	(1,673,308)	(4,861,758)	(16,791,740)
Release during the year	-	-	1,556,709	1,556,709
Recoveries	-	(93,496)	(414,634)	(508,130)
Unwinding of discount	-	-	114,688	114,688
Write-offs	-	1,232,580	2,776,711	4,009,291
Others	(4,204)	(233)	(795)	(5,232)
As at 31 December	**(25,693,629)**	**(1,420,307)**	**(4,857,085)**	**(31,971,021)**

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	The Bank			
	2017			
	Provision for impairment losses which is collectively assessed	Provision for impaired loans and advances		Total
		collective assessement	individual assessement	
As at 1 January	(11,732,820)	(716,070)	(3,973,395)	(16,422,285)
Charge for the year	(3,711,516)	(376,928)	(3,108,038)	(7,196,482)
Release during the year	-	-	1,490,972	1,490,972
Recoveries	-	(96,234)	(610,204)	(706,438)
Unwinding of discount	-	-	103,226	103,226
Write-offs	-	302,717	2,066,409	2,369,126
Others	11,585	665	3,024	15,274
As at 31 December	**(15,432,751)**	**(885,850)**	**(4,028,006)**	**(20,346,607)**

(8) Rescheduled loans and advances to customers

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Rescheduled loans and advances to customers	1,161,948	1,004,523	1,150,886	1,004,523

(9) Fair value of collaterals

As at the end of the Relevant Periods, the fair value of collaterals held against corporate loans and advances of the Group and the Bank that were impaired and that were overdue but not impaired were as the follows:

Fair value of collaterals held against impaired corporate loans and advances

As at 31 December 2018, the gross balance of corporate loans and advances of the Group and the Bank that were impaired amounted to RMB8,019 million and RMB7,795 million respectively (31 December 2017: The Group and the Bank were RMB6,619 million and RMB6,307 million respectively). The covered portion of these loans and advances were RMB3,885 million and RMB3,884 million respectively (31 December 2017: The Group and the Bank were RMB3,770 million and RMB3,703 million respectively). Corresponding fair value of collaterals was as follows:

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Land and premises	3,019,681	2,539,462	3,016,486	2,444,163
Other assets	1,384,045	1,566,606	1,384,045	1,554,887
Total	**4,403,726**	**4,106,068**	**4,400,531**	**3,999,050**

Fair value of collaterals held against corporate loans and advances which were overdue but not impaired

As at 31 December 2018, the gross amount of corporate loans and advances of the Group and the Bank, which were overdue but not impaired, were RMB3,214 million and RMB3,207 million respectively (31 December 2017: RMB204 million and RMB190 million respectively). The covered portion of these loans and advances of the Group and the Bank were RMB1,094 million and RMB1,087 million respectively (31 December 2017: both RMB81 million respectively). Corresponding fair value of collaterals was as follows:

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Land and premises	706,371	82,257	706,371	82,257
Other assets	529,579	4,655	528,053	4,655
Total	**1,235,950**	**86,912**	**1,234,424**	**86,912**

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The fair value of collateral was estimated by the Group based on the latest available external valuations adjusted by considering the current realisation experience as well as the market situation. Collaterals were mainly land and premises.

9. Available-for-sale financial assets

(1) Available-for-sale financial assets

	Note	The Group		The Bank	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Debt instruments measured by fair value (Analysed by issuer)					
In mainland China					
- Government		2,032,270	1,700,534	1,911,153	1,681,084
- Policy banks		8,534,150	9,100,121	8,331,522	8,950,398
- Banks and other financial institutions		194,737,547	180,906,385	193,730,396	179,924,230
- Other institutions	(i)	7,435,033	9,307,726	6,980,129	9,075,791
Outside mainland China					
- Government		1,151,972	946,706	200,005	196,064
- Banks and other financial institutions		6,623,126	7,511,423	4,688,611	6,410,929
- Other institutions	(i)	2,075,831	1,097,867	333,448	610,043
Sub-total	(ii)/(iii)	**222,589,929**	**210,570,762**	**216,175,264**	**206,848,539**
Equity instruments (Analysed by measurement)					
In mainland China					
- Measured by fair value	(iii)/(iv)	167,532,016	199,074,036	167,250,059	198,521,988
- Measured by cost	(v)	99,588	94,327	64,327	64,327
Outside mainland China					
- Measured by fair value	(iii)	11,557,988	10,945,688	13,211,946	12,279,707
Sub-total		**179,189,592**	**210,114,051**	**180,526,332**	**210,866,022**
Total		**401,779,521**	**420,684,813**	**396,701,596**	**417,714,561**

(2) Analysed by listed or unlisted

	Note	The Group		The Bank	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Debt instruments					
- Listed		12,788,249	1,767,791	7,441,479	-
- Unlisted		209,801,680	208,802,971	208,733,785	206,848,539
Sub-total	(ii)	**222,589,929**	**210,570,762**	**216,175,264**	206,848,539
Equity instruments					
- Listed		62,678	68,607	62,678	68,607
- Unlisted	(v)	179,126,914	210,045,444	180,463,654	210,797,415
Sub-total		**179,189,592**	**210,114,051**	**180,526,332**	**210,866,022**
Total		**401,779,521**	**420,684,813**	**396,701,596**	**417,714,561**

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(3) Fair value analyses of available-for-sale financial assets

	Note	As at 31 December 2018					
		The Group			The Bank		
		Available-for-sale equity instruments	Available-for-sale debt instruments	Total	Available-for-sale equity instruments	Available-for-sale debt instruments	Total
Cost of equity instruments / debt instruments		178,558,550	223,723,010	402,281,560	179,905,182	217,080,274	396,985,456
Fair Value		179,090,004	222,589,929	401,679,933	180,462,005	216,175,264	396,637,269
Fair value change included in OCI		532,894	(120,665)	412,229	558,263	107,406	665,669
Provision for impairment	(iii)	(1,440)	(1,012,416)	(1,013,856)	(1,440)	(1,012,416)	(1,013,856)

	Note	As at 31 December 2017					
		The Group			The Bank		
		Available-for-sale equity instruments	Available-for-sale debt instruments	Total	Available-for-sale equity instruments	Available-for-sale debt instruments	Total
Cost of equity instruments / debt instruments		210,171,253	211,964,885	422,136,138	211,184,349	208,248,612	419,432,961
Fair Value		210,019,724	210,570,762	420,590,486	210,801,695	206,848,539	417,650,234
Fair value change included in OCI		(62,121)	(752,996)	(815,117)	(293,246)	(758,946)	(1,052,192)
Provision for impairment	(iii)	(89,408)	(641,127)	(730,535)	(89,408)	(641,127)	(730,535)

(i) Debt instruments issued by other institutions inside and outside mainland China mainly represent debt securities issued by all kinds of enterprises and companies.

(ii) At the balance sheet date, some of the debt instruments were pledged as collateral for debt securities lending transactions (see Note X for details). No other investments were subject to material restriction on realisation.

(iii) When impairment of an available-for-sale investment measured at fair value occurs, any impairment loss recognised is recorded in the carrying amount directly.

(iv) Equity instruments measured based on fair value inside China mainly represent money fund and bond fund investment, and beneficial right investment on bonus bill.

(v) Part of available-for-sale unlisted equity instruments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any accumulated impairment losses.

10. Held-to-maturity investments

Analysed by type of issuer and geographical location

	Note	The Group		The Bank	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Issued in mainland China:					
- Government		262,851,272	231,227,582	262,851,272	231,227,582
- Banks and other financial institutions		28,884,645	25,111,492	27,995,504	25,111,492
- Other institutions	(i)	10,064,524	1,121,939	10,043,749	1,121,939
Issued outside mainland China					
- Commercial banks and other financial institutions		4,896,361	4,177,804	4,185,043	4,177,804
- Other institutions	(i)	4,773,857	2,627,647	2,968,880	2,433,289
Total		**311,470,659**	264,266,464	**308,044,448**	264,072,106
Less: Provision for impairment losses	V. 17	(827,419)	(3,596)	(827,419)	(3,596)
Carrying amount	(ii)/(iii)	**310,643,240**	264,262,868	**307,217,029**	264,068,510

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(i) Debt securities issued by other institutions inside and outside mainland China mainly represent debt securities issued by all kinds of enterprises companies.

(ii) As at the balance sheet date, part of the held-to-maturity investments was pledged as guaranty (See Note X). No other investments were subject to material restrictions on the realisation.

(iii) As at 31 December 2018, held-to-maturity investments of the Group and the Bank include a listed bond investment, which amounted to RMB14.89 billion and RMB12.98 billion respectively. (31 December 2017, RMB8.71 billion and RMB8.52 billion respectively).

11. Investment securities classified as receivables

Analysed by type of issuer and geographical location

	Note	The Group		The Bank	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Issued in mainland China					
- Government	(i)	7,735,978	8,390,195	7,735,978	8,390,195
- Commercial Banks	(ii)/(iv)	928,877	902,293	-	-
- Other financial institutions	(iii)/(iv)	125,810,515	134,920,751	138,909,745	141,898,414
- Other institutions	(v)	300,000	100,000	300,000	100,000
Sub-total		**134,775,370**	**144,313,239**	**146,945,723**	**150,388,609**
Less: Provision for impairment losses	V. 17	(6,010,530)	(7,611,853)	(6,352,702)	(7,848,140)
Carrying amount	(vi)	**128,764,840**	**136,701,386**	**140,593,021**	**142,540,469**

(i) Mainly represent certificated bonds and local government bonds issued by Chinese government.

(ii) Mainly represent wealth management products issued by commercial banks.

(iii) Mainly represent the asset management plans established by asset management companies, the asset management plans established by securities companies and the certificates issued by securities companies.

Some banks and other financial institutions offer credit enhancement to some of the above investments. As at 31 December 2018, RMB1 billion of beneficial right transfer contracts have been signed to forward sell with banks and other financial institutions in mainland China (31 December 2017: RMB1.8 billion). The fair value of the above sale agreement is insignificant.

(iv) The Group invests in debt instruments directly or through structured entities to get a fixed or determinable income. The underlying assets of these structured entities include interbank deposits, bonds and credit assets. For the information of the interests in structure entities, see Note VI.

(v) Securities issued by other institutions in China are mainly debt instruments issued by all kinds of enterprises companies.

(vi) None of the above investment classified as receivables was listed. Part of the investment classified as receivables was pledged as guaranty (see Note X). No other investments were subject to material restrictions on the realization.

12. Long-term equity investments

	Note	The Group	
		As at 31 December 2018	As at 31 December 2017
Investments in associates	(i)	402,120	395,131

	Note	The Bank	
		As at 31 December 2018	As at 31 December 2017
Investments in associate	(ii)	382,399	375,115
Investments in subsidiaries	(iii)	3,870,724	3,870,724
Total		**4,253,123**	**4,245,839**

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(i) Changes in the Group's long-term equity investments in associate are as follows:

Investee	2018					
	Balance at 1 January	Increase in capital	Decrease in capital	Investment gains/(losses) recognised under equity method	Balance at 31 December	Balance of provision for impairment losses at 31 December
Shanghai Shangkang Yinchuang Investment Management co., Ltd. ("Shangkang Yinchuang")	19,016	-	-	505	19,521	-
Shanghai ShangCheng Consumer Finance Corporation Limited ("ShangCheng Finance")	375,115	-	-	7,284	382,399	-
Shenzhen Yushi Supply Chain Science & Technology Service Co. ,Ltd. ("Yushi Science&Technology")	1,000	-	(1,000)	-	-	-
Shangyin Yihao Equity Investment Fund Partnership Company("Shangyin Yihao")	-	100	-	-	100	-
Shangyin Zhonghe Hengtai Investment Partnership Company("Zhonghe Hengtai")	-	100	-	-	100	-
Total	**395,131**	**200**	**(1,000)**	**7,789**	**402,120**	**-**

Investee	2017				
	Balance at 1 January	Increase in capital	Investment loss recognised under equity method	Balance at 31 December	Balance of provision for impairment losses at 31 December
Shangkang Yinchuang	18,423	-	593	19,016	-
ShangCheng Finance	-	380,000	(4,885)	375,115	-
Yushi Science&Technology	-	1,000	-	1,000	-
Total	**18,423**	**381,000**	**(4,292)**	**395,131**	**-**

(ii) Changes in the Bank's long-term equity investments in associates are as follows:

Investee	2018				
	Balance at 1 January	Increase in capital	Investment loss recognised under equity method	Balance at 31 December	Balance of provision for impairment losses at 31 December
ShangCheng Finance	375,115	-	7,284	382,399	-

Investee	2017				
	Balance at 1 January	Increase in capital	Investment loss recognised under equity method	Balance at 31 December	Balance of provision for impairment losses at 31 December
ShangCheng Finance	-	380,000	(4,885)	375,115	-

See Note VI.2 for details of the Group's and the Bank's associates.

(iii) Changes in the Bank's long-term equity investments in subsidiaries are as follows:

Investee	2018			
	Balance at 1 January	Additional investment	Balance at 31 December	Balance of provision for impairment losses at 31 December
Bank of Shanghai (Hong Kong) Limited ("Hongkong subsidiary")	3,279,424	-	3,279,424	-
BOSC Asset Management Co., Ltd. ("Asset Management")	270,000	-	270,000	-
Minhang Rural	102,000	-	102,000	-
Jiangning Rural	102,000	-	102,000	-
Chongzhou Rural	66,300	-	66,300	-
Qujiang Rural	51,000	-	51,000	-
Total	**3,870,724**	**-**	**3,870,724**	**-**

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Investee	2017			
	Balance at 1 January	Additional investment	Balance at 31 December	Balance of provision for impairment losses at 31 December
Hong Kong Subsidiary	3,279,424	-	3,279,424	-
Asset Management	270,000	-	270,000	-
Minhang Rural	102,000	-	102,000	-
Jiangning Rural	102,000	-	102,000	-
Chongzhou Rural	66,300	-	66,300	-
Qujiang Rural	51,000	-	51,000	-
Total	**3,870,724**	-	**3,870,724**	-

See Note VI.1 for details of the Bank's subsidiaries.

13. Fixed assets

	The Group					
	Premises	Construction in progress	Electronic equipment	Furniture and fixtures	Motor vehicles	Total
Cost:						
As at 1 January 2018	5,703,999	99,960	55,412	2,234,401	105,915	8,199,687
Additions	1,632,664	44,799	1,988	251,162	3,783	1,934,396
Disposals	-	(73,766)	(639)	(147,449)	(1,979)	(223,833)
As at 31 December 2018	**7,336,663**	**70,993**	**56,761**	**2,338,114**	**107,719**	**9,910,250**
Accumulated depreciation:						
As at 1 January 2018	(1,956,763)	-	(46,785)	(1,717,048)	(84,553)	(3,805,149)
Charge for the year	(262,756)	-	(4,839)	(194,138)	(5,958)	(467,691)
Disposals	-	-	484	139,897	1,880	142,261
As at 31 December 2018	**(2,219,519)**	-	**(51,140)**	**(1,771,289)**	**(88,631)**	**(4,130,579)**
Carrying amount						
As at 1 January 2018	**3,747,236**	**99,960**	**8,627**	**517,353**	**21,362**	**4,394,538**
As at 31 December 2018	**5,117,144**	**70,993**	**5,621**	**566,825**	**19,088**	**5,779,671**

	The Group					
	Premises	Construction in progress	Electronic equipment	Furniture and fixtures	Motor vehicles	Total
Cost:						
As at 1 January 2017	5,508,812	56,362	58,636	2,369,877	104,670	8,098,357
Additions	195,220	43,598	2,153	126,210	7,617	374,798
Disposals	(33)	-	(5,377)	(261,686)	(6,372)	(273,468)
As at 31 December 2017	**5,703,999**	**99,960**	**55,412**	**2,234,401**	**105,915**	**8,199,687**
Accumulated depreciation:						
As at 1 January 2017	(1,762,848)	-	(45,814)	(1,756,781)	(83,495)	(3,648,938)
Charge for the year	(193,946)	-	(5,122)	(208,043)	(7,109)	(414,220)
Disposals	31	-	4,151	247,776	6,051	258,009
As at 31 December 2017	**(1,956,763)**	-	**(46,785)**	**(1,717,048)**	**(84,553)**	**(3,805,149)**
Carrying amount						
As at 1 January 2017	**3,745,964**	**56,362**	**12,822**	**613,096**	**21,175**	**4,449,419**
As at 31 December 2017	**3,747,236**	**99,960**	**8,627**	**517,353**	**21,362**	**4,394,538**

As at 31 December 2018, the carrying amount of the Group's premises for operating leases was RMB491 million (31 December 2017: RMB356 million).

As at 31 December 2018, there was no significant amounts of temporarily idle fixed assets (31 December 2017: Nil).

As at 31 December 2018, title deeds were not yet finalised for the Group's premises with a carrying amount of RMB110 million (31 December 2017: 198 million). Management of the Group are of the opinion that the Group is entitled to legally and effectively occupy or use the above-mentioned premises.

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14. Intangible assets

	The Group			
	Land use right	Computer software	Others	Total
Cost				
As at 1 January 2018	278,832	947,047	5,568	1,231,447
Additions	-	173,071	57	173,128
As at 31 December 2018	**278,832**	**1,120,118**	**5,625**	**1,404,575**
Accumulated amortisation				
As at 1 January 2018	(85,368)	(633,626)	(1,783)	(720,777)
Accumulated amortisation	(5,905)	(141,473)	(277)	(147,655)
As at 31 December 2018	**(91,273)**	**(775,099)**	**(2,060)**	**(868,432)**
Carrying amount				
As at 1 January 2018	**193,464**	**313,421**	**3,785**	**510,670**
As at 31 December 2018	**187,559**	**345,019**	**3,565**	**536,143**

	The Group			
	Land use right	Computer software	Others	Total
Cost				
As at 1 January 2017	278,832	883,165	8,318	1,170,315
Additions	-	72,465	-	72,465
Disposals	-	(8,583)	(2,750)	(11,333)
As at 31 December 2017	**278,832**	**947,047**	**5,568**	**1,231,447**
Accumulated amortisation				
As at 1 January 2017	(79,465)	(507,465)	(3,770)	(590,700)
Amortised for the year	(5,903)	(133,471)	(742)	(140,116)
Disposals	-	7,310	2,729	10,039
As at 31 December 2017	**(85,368)**	**(633,626)**	**(1,783)**	**(720,777)**
Carrying amount				
As at 1 January 2017	**199,367**	**375,700**	**4,548**	**579,615**
As at 31 December 2017	**193,464**	**313,421**	**3,785**	**510,670**

15. Deferred tax assets and liabilities

(1) Analysed by nature

		The Group				
		As at 31 December 2018				
	Note	Deductible temporary differences	Deferred tax assets	Taxable temporary differences	Deferred tax liabilities	Net balance
Deferred tax assets						
Provision for impairment losses		36,727,868	9,178,642	-	-	9,178,642
Employee benefits payable		3,540,725	885,037	-	-	885,037
Fair value change		184,743	34,687	(1,800,252)	(450,063)	(415,376)
Others	(i)	165,910	41,767	-	-	41,767
Total		**40,619,246**	**10,140,133**	**(1,800,252)**	**(450,063)**	**9,690,070**

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	Note	The Group				
		As at 31 December 2017				
		Deductible temporary differences	Deferred tax assets	Taxable temporary differences	Deferred tax liabilities	Net balance
Deferred tax assets						
Provision for impairment losses		23,525,799	5,877,529	-	-	5,877,529
Employee benefits payable		2,832,482	708,101	-	-	708,101
Fair value change		5,150,029	1,286,441	(506,912)	(126,728)	1,159,713
Others	(i)	149,110	38,096	-	-	38,096
Total		**31,657,420**	**7,910,167**	**(506,912)**	**(126,728)**	**7,783,439**
Deferred tax liabilities						
Provision for impairment losses		88,800	22,200	-	-	22,200
Fair value change		-	-	(310,308)	(77,577)	(77,577)
Others	(i)	-	-	(2,206)	(364)	(364)
Total		**88,800**	**22,200**	**(312,514)**	**(77,941)**	**(55,741)**

(i) Others mainly represent the temporary differences arising from long-term deferred expenses, as well as the difference in amortization period between accounting policy and tax requirement for intangible assets.

(2) Movements of deferred tax

	Note	The Group			
		Year ended 31 December 2018			
		1 January 2018	Recognised in profit or loss	Recognised in equity	31 December 2018
Deferred tax assets					
Deferred tax					
- Provision for impairment losses	(i)	5,877,529	3,301,113	-	9,178,642
- Employee benefits payable		708,101	176,936	-	885,037
- Fair value change	(ii)	1,159,713	(1,162,358)	(412,731)	(415,376)
- Others		38,096	3,671	-	41,767
Net balance		**7,783,439**	**2,319,362**	**(412,731)**	**9,690,070**
Deferred tax liabilities					
Deferred tax					
- Provision for impairment losses	(i)	22,200	(22,200)	-	-
- Fair value change	(ii)	(77,577)	-	77,577	-
- Others		(364)	364	-	-
Net balance		**(55,741)**	**(21,836)**	**77,577**	**-**

	Note	The Group			
		Year ended 31 December 2017			
		1 January 2018	Recognised in profit or loss	Recognised in equity	31 December 2018
Deferred tax assets					
Deferred tax					
- Provision for impairment losses	(i)	4,960,903	916,626	-	5,877,529
- Employee benefits payable		578,929	129,172	-	708,101
- Fair value change	(ii)	(546,787)	1,405,947	300,553	1,159,713
- Others		39,844	(1,748)	-	38,096
Net balance		**5,032,889**	**2,449,997**	**300,553**	**7,783,439**
Deferred tax liabilities					
Deferred tax					
- Provision for impairment losses	(i)	-	22,200	-	22,200
- Fair value change	(ii)	(40,099)	-	(37,478)	(77,577)
- Others		(185)	(179)	-	(364)
Net balance		**(40,284)**	**22,021**	**(37,478)**	**(55,741)**

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(i) The Group made provision for impairment losses on financial assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets as at the balance sheet date. The amounts deductible for income tax purposes are calculated based on the underlying PRC tax rules at the balance sheet.

(ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realised.

16. Other assets

	Note	The Group	
		As at 31 December 2018	As at 31 December 2017
Precious metals		3,889,072	7,271,288
Suspense account for clearing		3,697,256	360,651
Receivables		1,736,618	1,444,266
Prepayments	(i)	663,475	1,571,332
Pledged deposits		389,331	594,392
Long-term deferred expenses	(ii)	267,034	203,416
Repossessed assets	(iii)	105,310	-
Others		421,877	524,955
Total		**11,169,973**	**11,970,300**
Less: Provision for impairment losses	V. 17	(134,810)	(40,323)
Net balance		**11,035,163**	**11,929,977**

(i) Prepayments mainly represent prepayments for office buildings, decorations for branches and other projects.

(ii) Long-term deferred expenses

	The Group			
	Year ended 31 December 2018			
	As at 1 January	Additions	Amortisation charged for the year	As at 31 December
Leasehold improvements	166,552	176,381	(121,282)	221,651
Others	36,864	16,057	(7,538)	45,383
Total	**203,416**	**192,438**	**(128,820)**	**267,034**

	The Group			
	Year ended 31 December 2017			
	As at 1 January	Additions	Amortisation charged for the year	As at 31 December
Leasehold improvements	212,907	62,216	(108,571)	166,552
Others	29,195	12,583	(4,914)	36,864
Total	**242,102**	**74,799**	**(113,485)**	**203,416**

(iii) Repossessed assets represent shares in third parties. As at 31 December 2018, the group accrue RMB 98.33million provision for impairment of repossessed assets (31 December 2017: nil).

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17. Provision for impairment losses

Impaired items	Note	The Group				
		As at 1 January 2018	Charge for the year	Recoveries for the year	Write-off and others	As at 31 December 2018
Placements with banks and other financial institutions	V.3	26,799	9,424	-	-	36,223
Financial assets held under resale agreements	V. 6	135,454	-	-	94,964	230,418
Loans and advances to customers	V. 8	20,830,293	16,956,725	(1,654,524)	(3,797,035)	32,335,459
Available-for-sale financial assets	V. 9	730,535	583,321	-	(300,000)	1,013,856
Held-to-maturity investments	V. 10	3,596	823,823	-	-	827,419
Investment securities classified as receivables	V. 11	7,611,853	-	(1,495,438)	(105,885)	6,010,530
Other assets	V. 16	40,323	94,366	-	121	134,810
Total		**29,378,853**	**18,467,659**	**(3,149,962)**	**(4,107,835)**	**40,588,715**

Impaired items	Note	The Group				
		As at 1 January 2017	Charge for the year	Recoveries for the year	Write-off and others	As at 31 December 2017
Placements with banks and pother financial institutions	V. 3	17,162	9,637	-	-	26,799
Financial assets held under resale agreements	V. 6	-	135,454	-	-	135,454
Loans and advances to customers	V. 8	16,602,775	7,584,810	(1,501,839)	(1,855,453)	20,830,293
Available-for-sale financial assets	V. 9	584,762	157,807	(12,034)	-	730,535
Held-to-maturity investments	V. 10	1,637	1,959	-	-	3,596
Investment securities classified as receivables	V. 11	5,348,428	2,457,557	(194,132)	-	7,611,853
Other assets	V. 16	30,502	29,467	(16,807)	(2,839)	40,323
Total		**22,585,266**	**10,376,691**	**(1,724,812)**	**(1,858,292)**	**29,378,853**

Impaired items	Note	The Bank				
		As at 1 January 2018	Charge for the year	Recoveries for the year	Write-off and others	As at 31 December 2018
Placements with banks and pother financial institutions	V. 3	26,799	5,884	-	-	32,683
Loans and advances to customers	V. 8	20,346,607	16,791,740	(1,556,709)	(3,610,617)	31,971,021
Available-for-sale financial assets	V. 9	730,535	583,321	-	(300,000)	1,013,856
Held-to-maturity investments	V. 10	3,596	823,823	-	-	827,419
Investment securities classified as receivables	V. 11	7,848,140	-	(1,495,438)	-	6,352,702
Other assets	V. 16	11,304	95,789	-	-	107,093
Total		**28,966,981**	**18,300,557**	**(3,052,147)**	**(3,910,617)**	**40,304,774**

Impaired items	Note	The Bank				
		As at 1 January 2017	Charge for the year	Recoveries for the year	Write-off and others	As at 31 December 2017
Placements with banks and pother financial institutions	V. 3	17,162	9,637	-	-	26,799
Loans and advances to customers	V. 8	16,422,285	7,196,482	(1,490,972)	(1,781,188)	20,346,607
Available-for-sale financial assets	V. 9	584,762	157,807	(12,034)	-	730,535
Held-to-maturity investments	V. 10	1,637	1,959	-	-	3,596
Investment securities classified as receivables	V. 11	5,348,428	2,693,844	(194,132)	-	7,848,140
Other assets	V. 16	16,807	11,304	(16,807)	-	11,304
Total		**22,391,081**	**10,071,033**	**(1,713,945)**	**(1,781,188)**	**28,966,981**

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18. Deposits from banks and other financial institutions

Analysed by type and geographical location of counterparty

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Deposits in mainland China				
- Banks	100,731,341	85,890,216	101,374,879	86,244,439
- Other financial institutions	218,590,388	211,712,877	218,691,923	211,773,718
Deposits outside mainland China				
- Banks	49,646,621	31,051,168	49,652,851	31,051,169
Total	**368,968,350**	328,654,261	**369,719,653**	329,069,326

19. Placements from banks and other financial institutions

Analysed by type and geographical location of counterparty

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Placements in mainland China				
- Banks	34,539,844	16,520,472	34,539,844	16,520,472
- Other financial institutions	200,000	-	200,000	-
Placements outside mainland China				
- Banks	33,596,294	35,280,624	29,976,410	33,417,955
Total	**68,336,138**	51,801,096	**64,716,254**	49,938,427

20. Financial liabilities at fair value through profit or loss

	The Group	
	As at 31 December 2018	As at 31 December 2017
Short position in bond	**7,168**	-

All the financial liabilities at fair value through profit or loss are trading financial liabilities.

21. Financial assets sold under repurchase agreements

(1) Analysed by type of collateral

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Securities				
- Government bonds	34,575,900	35,139,100	34,575,900	35,139,100
- Policy bank bonds	9,982,040	10,660,900	9,982,040	10,660,900
Sub-total	**44,557,940**	**45,800,000**	**44,557,940**	**45,800,000**
Bank deposit receipt	296,000	-	296,000	-
Commercial bills	16,297,318	32,559,419	16,297,318	32,559,419
Asset management plans	-	213,750	-	-
Total	**61,151,258**	78,573,169	**61,151,258**	78,359,419

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(2) Analysed by type and geographical location of counterparty

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
In mainland China				
- Banks	42,740,356	51,141,108	42,740,356	51,141,108
- Other financial institutions	18,410,902	27,432,061	18,410,902	27,218,311
Total	**61,151,258**	**78,573,169**	**61,151,258**	**78,359,419**

22. Deposits from customers

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Demand deposits				
- Corporate customers	336,208,174	323,092,112	334,726,519	321,541,586
- Personal customers	63,933,594	58,390,833	63,658,570	58,321,135
Sub-total	**400,141,768**	381,482,945	**398,385,089**	379,862,721
Time deposits (include call deposits)				
- Corporate customers	393,687,032	328,458,562	384,895,878	316,339,543
- Personal customers	166,373,714	146,876,815	165,967,911	146,633,040
Sub-total	**560,060,746**	475,335,377	**550,863,789**	462,972,583
Pledged deposits	**82,287,091**	66,767,002	**81,752,484**	66,311,020
Total	**1,042,489,605**	923,585,324	**1,031,001,362**	909,146,324

23. Employee benefits payable

	Note	The Group	
		As at 31 December 2018	As at 31 December 2017
Short-term employee benefits	(i)	2,592,986	1,915,377
Post employment benefits – defined contribution plans	(ii)	-	-
Termination benefits		1,643	3,305
Other long-term employee benefits	(iii)	1,105,539	1,060,264
Total	(iv)	**3,700,168**	**2,978,946**

(i) Short-term employee benefits

	The Group			
	As at 1 January 2018	Increased during the year	Decreased during the year	As at 31 December 2018
Salaries, bonuses, allowances	1,905,502	3,682,350	(3,010,161)	2,577,691
Staff welfare	-	178,501	(178,501)	-
Social insurance				
- Medical insurance	-	185,756	(185,756)	-
- Work-related injury insurance	-	2,996	(2,996)	-
- Maternity insurance	-	17,332	(17,332)	-
Housing fund	-	235,118	(235,118)	-
Labour union fee, staff and workers' education fee	9,875	76,169	(71,891)	14,153
Others	-	196,569	(195,427)	1,142
Total	**1,915,377**	**4,574,791**	**(3,897,182)**	**2,592,986**

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	The Group			
	As at 1 January 2017	Increased during the year	Decreased during the year	As at 31 December 2017
Salaries, bonuses, allowances	1,778,945	3,175,741	(3,049,184)	1,905,502
Staff welfare	-	172,321	(172,321)	-
Social insurance				
- Medical insurance	-	174,272	(174,272)	-
- Work-related injury insurance	-	3,300	(3,300)	-
- Maternity insurance	-	16,304	(16,304)	-
Housing fund	-	222,448	(222,448)	-
Labour union fee, staff and workers' education fee	13,274	71,853	(75,252)	9,875
Others	177	183,077	(183,254)	-
Total	**1,792,396**	**4,019,316**	**(3,896,335)**	**1,915,377**

(ii) Post employment benefits – defined contribution plans

	The Group			
	As at 1 January 2018	Increased during the year	Decreased during the year	As at 31 December 2018
Basic pension insurance	-	361,768	(361,768)	-
Unemployment insurance	-	9,376	(9,376)	-
Annuity	-	148,429	(148,429)	-
Others	-	486	(486)	-
Total	**-**	**520,059**	**(520,059)**	**-**

	The Group			
	As at 1 January 2017	Increased during the year	Decreased during the year	As at 31 December 2017
Basic pension insurance	-	341,877	(341,877)	-
Unemployment insurance	-	9,974	(9,974)	-
Annuity	-	149,542	(149,542)	-
Others	-	7,043	(7,043)	-
Total	-	**508,436**	**(508,436)**	-

(iii) The other long-term employee benefits of the group are deferred payment which are accrued according to the requirements of regulators and the relevant regulations of the bank. The timeline for the deferred payment is three years.

(iv) There were no arrears balance among the Group's employee benefits payable.

24. Taxes payable

	Note	The Group		The Bank	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Income tax payable		2,942,867	3,565,645	2,901,021	3,554,416
VAT and surcharges payable		1,344,608	576,551	1,332,561	572,857
Others	(i)	5,977	1,945	5,854	1,825
Total		**4,293,452**	4,144,141	**4,239,436**	4,129,098

(i) Others include property tax, land use tax and etc.

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25. Interests payable

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Deposits from customers	12,619,625	12,580,968	12,557,735	12,484,675
Deposits from banks and other financial institutions	2,373,661	2,055,176	2,375,404	2,056,071
Borrowings from central bank	1,480,501	1,125,317	1,480,442	1,125,301
Debt securities issued	461,926	375,447	359,884	359,884
Placements from banks and other financial institutions	412,362	294,531	393,211	290,976
Financial assets sold under repurchase agreements	35,052	139,120	35,052	87,094
Total	**17,383,127**	**16,570,559**	**17,201,728**	**16,404,001**

26. Debt securities issued

	Note	The Group				
		1 January 2018	Issued for the year	Repaid for the year	amortization of discounts or premiums	31 December 2018
Negotiable certificates of deposit issued	(i)	150,635,724	877,840,000	(861,830,000)	(280,354)	166,365,370
Subordinated debts and tier 2 capital bonds issued	(ii)	14,989,466	-	-	3,270	14,992,736
Certificate of deposit	(iii)	1,871,788	8,967,590	(6,344,994)	98,007	4,592,391
Other Note instruments	(iv)	651,100	3,418,107	(651,100)	6,926	3,425,033
Total		**168,148,078**	**890,225,697**	**(868,826,094)**	**(172,151)**	**189,375,530**

	Note	The Group				
		1 January 2017	Issued for the year	Repaid for the year	amortization of discounts or premiums	31 December 2017
Negotiable certificates of deposit issued	(i)	214,359,983	597,850,000	(663,380,000)	1,805,741	150,635,724
Subordinated debts and tier 2 capital bonds issued	(ii)	14,986,196	-	-	3,270	14,989,466
Certificate of deposit	(iii)	1,734,206	2,603,600	(2,343,240)	(122,778)	1,871,788
Other Note instruments	(iv)	-	651,100	-	-	651,100
Total		**231,080,385**	**601,104,700**	**(665,723,240)**	**1,686,233**	**168,148,078**

	Note	The Bank				
		1 January 2018	Issued for the year	Repaid for the year	amortization of discounts or premiums	31 December 2018
Negotiable certificates of deposit issued	(i)	150,635,724	877,840,000	(861,830,000)	(280,354)	166,365,370
Subordinated debts and tier 2 capital bonds issued	(ii)	14,989,466	-	-	3,270	14,992,736
Total		**165,625,190**	**877,840,000**	**(861,830,000)**	**(277,084)**	**181,358,106**

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		The Bank				
	Note	1 January 2017	Issued for the year	Repaid for the year	amortization of discounts or premiums	31 December 2017
Negotiable certificates of deposit issued	(i)	214,359,983	597,850,000	(663,380,000)	1,805,741	150,635,724
Subordinated debts and tier 2 capital bonds issued	(ii)	14,986,196	-	-	3,270	14,989,466
Total		**229,346,179**	**597,850,000**	**(663,380,000)**	**1,809,011**	**165,625,190**

(i) As at 31 December 2018, the Group and the Bank held 99 unmature negotiable certificates of deposit that were issued in the inter-bank market. The maximum maturity is 365 days. The interest rate ranges from 2.8% to 4.5% (As at 31 December 2017, the Group and the Bank held 75 unmature negotiable certificates of deposit that were issued in the inter-bank market. The maximum maturity is 365 days. The interest rate ranges from 3.85% to 5.52%).

(ii) As at the balance sheet date, details for subordinated debts and tier 2 capital bonds issued by the Group and the Bank are shown as follows:

	Note	As at 31 December 2018	As at 31 December 2017
Subordinated fixed rate bonds maturing in May 2021	(a)	2,500,000	2,500,000
Subordinated fixed rate bonds maturing in May 2026	(a)	2,500,000	2,500,000
Subordinated fixed rate bonds maturing in December 2027	(b)	4,995,701	4,994,611
Fixed-rate tier 2 capital bonds maturing in May 2025	(c)	4,997,035	4,994,855
Total		**14,992,736**	**14,989,466**

(a) The Group issued two tranches of subordinated bonds total amounting to RMB5 billion in the inter-bank market, including 10-years bonds with face value of RMB2.5 billion and 15-years bonds with face value of RMB2.5 billion on 20 May 2011. The 10-years bonds bear a fixed annual coupon interest rate of 5.6% and the 15-years bonds bear a fixed annual coupon interest rate of 5.8%.

(b) The Group issued 15-years fixed interest rate bonds with face value RMB5 billion on 5 December 2012. The coupon interest rate per annum is 5.35%. The Group has the option to redeem all of the bonds at face value on 6 December 2022 upon regulatory approval.

(c) The Group issued 10-years fixed-rate tier 2 capital bonds with face value RMB5 billion on 7 May 2015. The coupon interest rate per annum is 5.32%. The Group has the option to redeem all of the bonds at face value on 11 May 2020 upon regulatory approval.

(iii) Certificates of deposit issued by the Group were issued publicly by Hong Kong Subsidiary in the Hong Kong market. As at 31 December 2018, the Group held 14 unmature certificates of deposit. The maximum maturity is 1095 days. The interest rate ranges from 2.00% to 4.60% (As at 31 December 2017, the Group held 8 unmature certificates of deposit. The maximum maturity is 1095 days. The interest rate ranges from 2.14% to 2.73%).

(iv) As at 31 December 2018, 1 other US dollar bonds total issued nonpublicly by the Group in Singapore. The maximum maturity is 3 years and the coupon interest rate per annum is 3.125% (As at 31 December 2017, 2 other US dollar bonds total issued nonpublicly by the Group. The maximum maturity is 1 years and the coupon interest rate per annum is 3.3%).

27. Other liabilities

	The Group	
	As at 31 December 2018	As at 31 December 2017
Suspense account for clearing	4,284,172	1,026,967
Deferred income	370,142	351,960
Dormant accounts	359,753	227,689
Payment and collection clearance accounts	352,317	307,147
Dividend payable	192,422	162,042
Payables for purchase of long-term assets	152,788	110,054
Others	815,761	664,019
Total	**6,527,355**	**2,849,878**

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28. Share capital

	The Group and the Bank		
	1 January 2018	Share capital increased by capital reserve transfer	31 December 2018
Share capital listed in mainland China	7,805,785	3,122,314	10,928,099

As explained in Note V.34, pursuant to the Shareholders' resolutions approved on 22 June 2018, the Bank increased 4 shares per 10 shares from capital reserve on basis of the share capital at the end of 2017 which was 7,805,785 thousand shares. The share capital of the Bank was subsequently increased by RMB 3.122 billion.

29. Other equity instruments

(1) Preference shares that remain outstanding at the end of the year are set out as follows:

Outstanding financial instruments	Issuance date	Accounting classification	Dividend or interest rate	Issuance price RMB	Quantity Million	Amount Thousand	Maturity date or renewal status	Conditions for conversion	Conversion status
Preference shares	December 2017	Equity instruments	5.20%	100/share	200	20,000,000	Sustainable	Compulsory	None
Minus: issuance cost						(42,830)			
Total						**19,957,170**			

(2) Major terms

(i) Dividend

Adjustable rate for a certain stage, which means that the dividends will be paid at the same rate within a period and the rate will be reset every five years.

The coupon dividend rate includes the benchmark interest rate and the fixed premium. The benchmark interest rate is the arithmetic average of the yield of the national debt for five years in the first twenty trading days (exclude the day) for the deadline of the issue of the priority share or the adjustment day of the benchmark interest rate (repricing day). The benchmark interest rate will be adjusted every five years from the date of issuing the preferred shares. The fixed premium is determined by the coupon dividend rate at the issue date, after deducting the benchmark rate. Once the fixed premium determined, it will be no longer adjusted.

At the repricing day, a new dividend rate will be determined by the sum of benchmark rate at the day and the initial fixed premium.

Dividends will be paid annually.

(ii) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Bank are prior to the ordinary shareholders on the right to dividends. Dividend payments are not linked to the bank's own ratings, nor are they adjusted according to the rating changes.

The Bank may elect to cancel any dividend and it do not constitute a breach of contract. The bank can freely control the cancellation of preferred stock dividends for repayment of other debts due. The cancellation of preferred stock dividends does not constitute any other restrictions on the bank, except for the dividend distribution restrictions on common stock.

(iii) Dividend stopper

The Bank will inform Preference Shareholders at least ten days before the interest payment day if the Bank cancels the dividends to the Preference Shareholders. If the Bank cancels all or part of the dividends to the Preference Shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the Preference Shareholders in full. Pay the dividends in full indicate that the Bank determine to begin paying all the dividends to Preference Shareholders. Since the preferred share is paid by non-cumulative dividends, the bank will not distribute dividends that have been cancelled in the previous year.

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(iv) Order of distribution and liquidation method

Preferred shareholders prefer priority to common shareholders to allocate residual assets. The amount paid is the sum of the preferred shares which has been issued and still existent and the dividends has been declared but not paid during the current period. The amount not sufficient to pay is allocated according to the proportion of preferred shareholders. The Preference Shareholders as well as the new Preference Shareholders in the future will rank equally for payment. The order arrangement of the preferred shareholders and the holders of other tier one capital instruments issued by the bank in the future subject to the relevant regulatory requirements.

(v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier 1 Capital Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Group falling to 5.125% or below), the Bank shall have the right to convert all or part of the Preference Shares into A shares, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Group to be above 5.125%. In the case of partial transfer, the preferred stock will be converted into shares on the same proportion and on the same terms.

Upon the occurrence of a Non-Viability Trigger Event (Earlier of the two situations: (1) CBRC has determined that the Bank would become non-viable if there is no conversion or write-down of preference share; or (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable), the Bank shall have the right to convert all Preference Shares into A shares.

If Preference Shares were converted to A shares, they may not be converted to Preference Shares again.

(vi) Redemption

The preferred shares have no maturity date. After five years since the date of issuance under the premise of obtaining the approval of the CBRC and compliance with regulatory requirements, the Bank has right to redeem all or some of domestic preference shares at the payment day of each year. The redemption period of preference shares ranges from five years after the issue date to the date of full redemption or conversion.

Redemption price is equal to book value plus accrued dividend in current period.

(3) Movement of the preference shares that remain outstanding at the end of the year:

Outstanding financial instruments	At the beginning of the year		Additions during the year		At the end of the year	
	Quantity Million	Carrying value Thousand	Quantity Million	Carrying value Thousand	Quantity Million	Carrying value Thousand
Preference shares	200	19,957,170	-	-	200	19,957,170

(4) Relevant information of amounts attributable to holders of equity instruments

	As at 31 December 2018	As at 31 December 2017
Equity attributable to shareholders of the Company	161,276,549	146,985,136
- Equity attributable to ordinary shareholders of the Company	141,319,379	127,027,966
- Equity attributable to holders of the Company's other equity instruments	19,957,170	19,957,170
Equity attributable to non-controlling shareholders	492,059	456,267
- Equity attributable to non-controlling ordinary shareholders	492,059	456,267
- Equity attributable to non-controlling shareholders of other equity instruments	-	-

30. Capital reserve

	The Group			
	As at 1 January 2018	Additions during the year(i)	Decrease during the year (ii)	As at 31 December 2018
Share premium	28,452,203	-	(3,122,314)	25,329,889
Other capital reserve	-	1,475	-	1,475
Total	**28,452,203**	**1,475**	**(3,122,314)**	**25,331,364**

	As at 1 January 2017	Additions during the year	Decrease during the year (iii)	As at 31 December 2017
Share premium	30,253,538	-	(1,801,335)	28,452,203

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	The Bank			
	As at 1 January 2018	Additions during the year	Decrease during the year (ii)	As at 31 December 2018
Share premium	28,452,203	-	(3,122,314)	25,329,889

	As at 1 January 2017	Additions during the year	Decrease during the year (iii)	As at 31 December 2017
Share premium	30,253,538	-	(1,801,335)	28,452,203

(i) In January 2018, Minhang Rural increased capital and shares by introducing new investors. The difference before and after the capital increase in the net asset share of Minhang Rural was approximately RMB 1.47 million, which was included in the capital reserve.

(ii) As explained in Note V.34, pursuant to the Shareholders' resolutions approved on 22 June 2018, the Bank increased 4 shares per 10 shares from capital reserve on basis of the share capital at the end of 2017 which was 7,805,785 thousand shares. The share capital of the Bank was subsequently increased by RM3.122 billion.

(iii) As explained in Note V.34, pursuant to the Shareholders' resolutions approved on 23 June 2017, the Bank increased 3 shares per 10 shares from capital reserve on basis of the share capital at the end of 2016 which was 6,004,450 thousand shares. The share capital of the Bank was subsequently increased by RMB1.801 billion.

31. Other comprehensive income

	The Group						
	2018						
Item	Balance at the beginning of the year attributable to shareholders of the Bank	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount attributable to shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests	Balance at the end of the year attributable to shareholders of the Bank
Items that may be reclassified to profit or loss							
Including: Gain or loss arising from changes in fair value of available-for-sale financial assets	(618,633)	1,616,716	(294,629)	(335,154)	1,005,250	(18,317)	386,617
Translation differences arising from translation of foreign currency financial statements	47,296	193,541	-	-	193,541	-	240,837
Total	**(571,337)**	**1,810,257**	**(294,629)**	**(335,154)**	**1,198,791**	**(18,317)**	**627,454**

	The Bank					
	2018					
Item	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Other comprehensive Balance at the end of the year
Items that may be reclassified to profit or loss						
Gain or loss arising from changes in fair value of available-for-sale financial assets	(789,144)	1,908,231	(190,370)	(429,465)	1,288,396	499,252

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Item	The Group						
	2017						
	Balance at the beginning of the year attributable to shareholders of the Bank	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount attributable to shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests	Balance at the end of the year attributable to shareholders of the Bank
Items that may be reclassified to profit or loss							
Including: Gain or loss arising from changes in fair value of available-for-sale financial assets	178,442	(788,802)	(260,104)	263,075	(797,075)	11,244	(618,633)
Translation differences arising from translation of foreign currency financial statements	317,752	(270,456)	-	-	(270,456)	-	47,296
Total	**496,194**	**(1,059,258)**	**(260,104)**	**263,075**	**(1,067,531)**	**11,244**	**(571,337)**

Item	The Bank					
	2017					
	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Other comprehensive Balance at the end of the year
Items that may be reclassified to profit or loss						
Gain or loss arising from changes in fair value of available-for-sale financial assets	124,620	(968,120)	(250,232)	304,588	(913,764)	(789,144)

32. Surplus reserve

	The Group and The Bank		
	Statutory surplus reserve	Discretionary surplus reserve	Total
As at 1 January 2017	8,306,780	13,920,564	22,227,344
Appropriation	1,402,652	2,805,304	4,207,956
As at 31 December 2017	9,709,432	16,725,868	26,435,300
As at 1 January 2018	**9,709,432**	**16,725,868**	**26,435,300**
Appropriation	**1,511,418**	**3,022,836**	**4,534,254**
As at 31 December 2018	**11,220,850**	**19,748,704**	**30,969,554**

In accordance with Company Law of the People's Republic of China and the Bank's Articles of Association, the Bank is required to appropriate 10% of its net profit to the statutory surplus reserve until the balance reaches 50% of its registered capital. Subject to the approval of shareholders' meeting, statutory and discretionary surplus reserves may be used to net off with accumulated losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

After the appropriation of statutory surplus reserve, discretionary surplus reserve may be appropriated from the net profit subject to the approval of shareholders' meeting. Upon the approval of shareholders' meeting, discretionary surplus reserves may be used to net off with accumulated losses, if any, and may be converted into capital.

As at 1 January 2017, the balance of the statutory surplus reserve of the Bank has reached 50% of its registered capital. The Bank continued to appropriate 10% of its net profit to the statutory surplus reserve according to the shareholders' resolutions on 23 June 2017 and 22 June 2018.

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33. General reserve

	The Group		The Bank	
	2018	2017	2018	2017
As at 1 January	25,780,256	21,245,093	25,630,000	21,130,000
Appropriation	24,502	4,535,163	-	4,500,000
As at 31 December	25,804,758	25,780,256	25,630,000	25,630,000

According to the Notice on Administrative Measures on Accrual of Provisions by Financial Enterprises (Cai Jin [2012] No.20) issued by the MOF, a financial enterprise shall appropriate from net profits an amount of not less than 1.5% of its risk-bearing assets at the year end as general reserve.

General reserve of the Group also includes other general reserves accrued by the Bank's subsidiaries in accordance with the laws and regulations applicable to the business industry or region.

34. Appropriation of profits

(i) According to the resolution made in the 8th session of the 5th Board Meeting on October 26, 2018, it was decided to declare a cash dividend of RMB 5.20 (tax inclusive) per share based on the 5.20% dividend yield ratio of the par value of the preferred stock -Shangyinyou 1. Then, the total dividends paid amount to RMB 1.04 billion (tax inclusive), and the date of dividend payment was on December 19, 2018.

(ii) In accordance with the resolution of the shareholders' meeting of the Bank on 22 June 2018, the shareholders approved the following profit appropriations and capital reserve addition for the year ended 31 December 2017:

- 10% of the profit after tax for the statutory surplus reserve of year 2017;

- 20% of the profit after tax for the discretionary surplus reserve of year 2017;

- No general reserve extracted of year 2017;

- RMB5.00 per 10 shares (including tax) with the aggregate amount of RMB3,903 million as cash dividend to the shareholders on the register; and

- Converting capital reserve into new shares on the basis of 7,805,785,000 shares of the total share capital at the end of 2017, by four shares for every ten existing shares with the total new shares amounting to RMB3,122 million.

(iii) In accordance with the resolution of the shareholders' meeting of the Bank on 23 June 2017, the shareholders approved the following profit appropriations and share capital increase from capital reserve addition for the year ended 31 December 2016:

- 10% of the profit after tax for the statutory surplus reserve of year 2016;

- 20% of the profit after tax for the discretionary surplus reserve of year 2016;

- RMB4.5 billion for the general reserve;

- RMB5.00 per 10 shares (including tax) with the aggregate amount of RMB3,002 million as cash dividend to the shareholders on the register; and;

- Converting capital reserve into new shares on the basis of 6,004,450,000 shares of the total share capital at the end of 2016, by three shares for every ten existing shares with the total new shares amounting to RMB1,801 million.

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35. Net interest income

	Note	The Group		The Bank	
		2018	2017	2018	2017
Investment in debt instruments		25,860,958	26,273,058	26,386,209	26,488,798
Loans and advances to customers					
- Corporate loans and advances		24,633,460	17,757,665	23,781,525	17,044,493
- Personal loans and advances		13,831,166	6,857,596	13,770,297	6,794,190
- Discounted bills		1,453,720	1,923,105	1,452,776	1,920,819
Placements with banks and other financial institutions		5,583,690	3,487,554	5,591,047	3,377,815
Deposits with central bank		2,049,359	2,028,931	2,044,871	2,024,335
Financial assets held under resale agreements		1,542,899	889,683	874,001	750,999
Deposits with banks and other financial institutions		774,946	751,856	758,444	733,602
Others		146,862	112,837	128,547	117,697
Interest income	(i)	**75,877,060**	**60,082,285**	**74,787,717**	**59,252,748**
Deposits from customers					
- Corporate customers		(14,714,175)	(11,677,442)	(14,488,814)	(11,396,426)
- Individual customers		(4,761,674)	(4,520,908)	(4,749,368)	(4,510,894)
Deposits from banks and other financial institutions		(10,359,384)	(9,215,618)	(10,374,772)	(9,255,032)
Debt securities issued		(8,129,648)	(8,353,584)	(7,891,378)	(8,307,347)
Placements from banks and other financial institutions		(3,202,327)	(1,645,187)	(3,156,642)	(1,606,615)
Borrowings from central bank		(3,035,941)	(2,935,567)	(3,033,060)	(2,932,962)
Financial assets sold under repurchase agreements		(1,731,349)	(2,611,742)	(1,716,903)	(2,601,399)
Others		(5,733)	(4,928)	(1,717)	(4,928)
Interest expense		**(45,940,231)**	**(40,964,976)**	**(45,412,654)**	**(40,615,603)**
Net interest income		**29,936,829**	**19,117,309**	**29,375,063**	**18,637,145**

(i) Interest income arising from impaired financial assets is listed as follows:

	The Group		The Bank	
	2018	2017	2018	2017
Interest income arising from impaired loans and advances to customers	117,926	105,336	114,688	103,226

36. Net fee and commission income

	The Group		The Bank	
	2018	2017	2018	2017
Bank card fees	1,802,351	1,353,300	1,802,351	1,353,300
Agent service fees	1,531,473	1,919,918	1,359,470	1,735,989
Advisory service fees	1,394,235	1,183,029	1,303,783	1,164,082
Custodian and other fiduciary service fees	904,570	1,239,868	904,019	1,202,750
Settlement and clearing fees	198,639	170,042	198,395	169,663
Electronic banking service fees	86,566	75,962	86,566	75,962
Others	826,661	843,439	790,643	768,740
Fee and commission income	**6,744,495**	**6,785,558**	**6,445,227**	**6,470,486**
Bank card charges	(415,604)	(220,554)	(415,604)	(220,554)
Agency expenses	(101,217)	(83,874)	(101,217)	(83,874)
Settlement and clearing charges	(73,475)	(75,293)	(73,345)	(74,973)
Others	(174,660)	(150,051)	(161,948)	(148,638)
Fee and commission expense	**(764,956)**	**(529,772)**	**(752,114)**	**(528,039)**
Net fee and commission income	**5,979,539**	**6,255,786**	**5,693,113**	**5,942,447**

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37. Net investment gains

	The Group		The Bank	
	2018	2017	2018	2017
Net gains/(losses) during the period in which financial instruments are held				
- Bonus income	7,291,183	8,692,396	7,272,437	8,677,600
- Dividend income	39,540	34,866	50,308	87,839
- Others	(1,267)	(1,199)	(2,045)	(1,199)
Net gains / (losses) from disposal of financial instruments				
- Available-for-sale financial assets	294,629	260,104	190,370	250,232
- Precious metal	213,516	465,886	213,516	465,886
- Derivatives	4,868	452,185	118,289	465,315
- Financial assets at fair value through profit or loss	55,827	(263,423)	81,785	(260,350)
Gains/(losses) from long-term equity investments accounted for using equity method	7,789	(4,292)	7,284	(4,885)
Gains from disposal of long-term equity investment	48	-	-	-
Total	**7,906,133**	**9,636,523**	**7,931,944**	**9,680,438**

38. Net (losses)/gains from changes in fair value

	The Group		The Bank	
	2018	2017	2018	2017
Derivatives	4,609,425	(5,183,248)	4,624,281	(5,227,118)
Financial assets at fair value through profit or loss	56,979	(66,449)	92,535	(76,455)
Precious metal	(13,922)	(320,215)	(13,922)	(320,215)
Total	**4,652,482**	**(5,569,912)**	**4,702,894**	**(5,623,788)**

39. General and administrative expenses

	The Group		The Bank	
	2018	2017	2018	2017
Staff costs				
- Short-term employee benefits	4,574,791	4,019,316	4,353,988	3,882,035
- Post-employment benefits – defined contribution plans	520,059	508,436	512,337	495,849
- Termination benefits	(400)	(1,131)	(400)	(1,131)
- Other long-term employee benefits	329,377	419,032	326,347	353,644
Sub-total	**5,423,827**	**4,945,653**	**5,192,272**	**4,730,397**
Premises and equipment expenses				
- Depreciation and amortisation	744,166	667,821	718,833	648,352
- Rental and property management expenses	799,935	771,928	754,897	736,952
- Utility charges	86,437	87,174	84,591	85,479
- Others	32,702	26,463	32,379	25,311
Sub-total	**1,663,240**	**1,553,386**	**1,590,700**	**1,496,094**
Other general and administrative expenses	1,919,324	1,606,319	1,870,196	1,549,028
Total	**9,006,391**	**8,105,358**	**8,653,168**	**7,775,519**

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40. Impairment losses

	The Group		The Bank	
	2018	2017	2018	2017
Loans and advances to customers	15,302,201	6,082,971	15,235,031	5,705,510
Held-to-maturity investments	823,823	1,959	823,823	1,959
Available-for-sale financial assets	583,321	145,773	583,321	145,773
Placements with banks and other financial institutions	9,424	9,637	5,884	9,637
Financial assets held under resale agreements	-	135,454	-	-
Investment securities classified as receivables	(1,495,438)	2,263,425	(1,495,438)	2,499,712
Others	108,570	32,096	95,789	(5,503)
Total	**15,331,901**	**8,671,315**	**15,248,410**	**8,357,088**

41. Income tax expenses

(1) Income tax expenses

	The Group		The Bank	
	2018	2017	2018	2017
Current tax	3,653,111	3,967,227	3,541,261	3,887,160
Deferred tax	(2,297,526)	(2,472,018)	(2,294,291)	(2,443,591)
Tax filling differences	(171,548)	(749,540)	(160,048)	(741,485)
Total	**1,184,037**	**745,669**	**1,086,922**	**702,084**

(2) Reconciliations between income tax expenses and accounting profit:

	Note	The Group		The Bank	
		2018	2017	2018	2017
Profit before tax		**19,251,872**	**16,082,462**	**18,767,364**	**15,816,263**
Expected income tax at statutory tax rate of 25%		4,812,968	4,020,615	4,691,841	3,954,066
Effect of different tax rates applied by certain subsidiaries		(26,141)	(19,042)	-	-
Tax effect of non-taxable income	(i)	(3,607,727)	(3,576,627)	(3,600,416)	(3,576,092)
Tax effect of non-deductible expenses	(ii)	31,128	306,819	21,319	302,151
Adjustments for prior years		(26,191)	13,904	(25,822)	21,959
Income tax expenses		**1,184,037**	**745,669**	**1,086,922**	**702,084**

(i) Non-taxable income mainly represent interest income from PRC government bonds, local government bonds and investment gains from equity investments.

(ii) Non-deductable expenses mainly represent staff costs in excess of the deductible threshold, non-deductible entertainment expenses and donations.

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42. Note to the statement of cash flow

(1) Reconciliation of net profit to cash flows from operating activities:

	The Group		The Bank	
	2018	2017	2018	2017
Profit for the year	**18,067,835**	15,336,793	**17,680,442**	15,114,179
Adjustments:				
Impairment losses	15,331,901	8,671,315	15,248,410	8,357,088
Unwinding of discount	(117,926)	(105,336)	(114,688)	(103,226)
Depreciation and amortisation	744,166	667,821	718,833	648,352
Net (losses) / gains from disposal of fixed assets, intangible assets and other long-term assets	6,867	(9,905)	6,867	(9,905)
Net (gains) / losses from changes in fair value	(4,652,482)	5,569,912	(4,702,894)	5,623,788
Foreign exchange (gains) / losses	(321,222)	273,538	(334,553)	477,826
Net investment gains	(7,631,922)	(8,981,875)	(7,518,354)	(9,009,587)
Interest income from investment in debt instruments	(25,115,509)	(25,939,248)	(25,803,424)	(26,154,988)
Interest expenses on debt securities issued	8,129,648	8,353,584	7,891,378	8,307,347
Deferred taxation	(2,297,526)	(2,472,018)	(2,294,291)	(2,443,591)
Increase in operating receivables	(208,399,938)	(148,876,995)	(204,114,051)	(150,179,569)
Increase in operating payables	184,523,114	86,745,125	186,292,730	83,948,209
Net cash outflow from operating activities	**(21,732,994)**	(60,767,289)	**(17,043,595)**	(65,424,077)

(2) Changes in cash and cash equivalents:

	The Group		The Bank	
	2018	2017	2018	2017
Cash and cash equivalents at the end of the year	85,401,765	85,072,926	81,202,279	81,721,170
Cash and cash equivalents at the beginning of the year	(85,072,926)	(83,954,898)	(81,721,170)	(79,959,462)
Net increase in cash and cash equivalents	**328,839**	1,118,028	**(518,891)**	1,761,708

(3) Cash and cash equivalents:

	The Group		The Bank	
	2018	2017	2018	2017
Cash on hand	2,127,633	2,072,258	2,114,180	2,063,514
Balance with central bank other than restricted deposits	24,279,200	10,389,960	24,126,432	10,113,157
Deposits with banks and other financial institutions with original maturity of three months or less	9,885,309	19,773,136	8,129,751	18,794,874
Placements with banks and other financial institutions with original maturity of three months or less	25,704,607	29,141,611	23,426,900	27,053,664
Financial assets held under resale agreements with original maturity of three months or less	23,405,016	23,695,961	23,405,016	23,695,961
Cash and cash equivalents at the end of the year	**85,401,765**	85,072,926	**81,202,279**	81,721,170

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VI. Interests in other entities

1. Interests in subsidiaries and structured entities included in the consolidated financial statements

Composition of the Group

Main subsidiaries directly held through establishment:

Name	The Bank's shareholding percentage (i)	The Bank's voting rights percentage (i)	Registered capital	Place of operation and registration and date of establishment	Primary business
Minhang Rural (ii)	46.41%	55.51%	RMB250 million	Shanghai, 16 Feb 2011	Commercial banking
Qujiang Rural	51%	51%	RMB100 million	Zhejiang, 20 Jun 2011	Commercial banking
Jiangning Rural	51%	51%	RMB200 million	Jiangsu, 24 May 2012	Commercial banking
Chongzhou Rural	51%	51%	RMB130 million	Sichuan, 21 Jun 2012	Commercial banking
Asset Management	90%	90%	RMB300 million	Shanghai, 30 Aug 2013	Asset management

Main subsidiaries indirectly held through establishment:

Name	The Bank's shareholding percentage (i)	The Bank's voting rights percentage (i)	Registered capital	Place of operation and registration and date of establishment	Primary business
BOSC International Company Limited ("BOSC International")	100%	100%	HKD780 million	Hong Kong, 5 Mar 2014	nvestment banking
BOSC Ruijin Asset Management (Shanghai) Co., Ltd. ("BOSC Ruijin")	90%	100%	RMB130 million	Shanghai, 17 Mar 2014	Asset management
BOSC International Capital Limited	100%	100%	HKD10 million	Hong Kong, 5 Oct 2016	Corporate finance
BOSC International Asset Management Limited	100%	100%	HKD5 million	Hong Kong, 5 Oct 2016	Asset management
BOSC International Investment Limited	100%	100%	HKD1 million	Hong Kong, 5 Oct 2016	Investment
BOSC International Securities Limited	100%	100%	HKD10 million	Hong Kong, 11 Oct 2016	Securities agent
BOSC International (Shenzhen) Company Limited	100%	100%	RMB200.98 million	Shenzhen, 27 May 2017	Investment advisory
BOSC International (BVI) Limited	100%	100%	USD1	British Virgin Island, 6 Jul 2017	Financing
BOSC International Advisory (Shenzhen) Company Limited	100%	100%	RMB10 million	Shenzhen, 15 Sep 2017	Advisory
BOSC International Equity Investment Fund Management (Shenzhen) Company Limited	100%	100%	RMB10 million	Shenzhen, 20 Nov 2017	Investment management
BOSC International Investment (Shenzhen) Company Limited	100%	100%	RMB10 million	Shenzhen, 23 Nov 2017	Investment
BOSC International Investment (BVI) Limited	100%	100%	USD1	British Virgin Island, 22 Dec 2017	Investment

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Main subsidiaries directly held through business combination of entities not under common control:

Name	The Bank's shareholding percentage (i)	The Bank's voting rights percentage (i)	Registered capital	Place of operation and registration	Primary business
Hong Kong Subsidiary (iii)	100%	100%	HKD4 billion	Hong Kong	Commercial banking

Structured entities that are included in the consolidated financial statements:

As at 31 December 2018, the net assets of the structured entities included in the consolidated financial statements are RMB14.3 billion (31 December 2017: RMB10.5 billion). The interests held by the Bank and its subsidiaries in the above structured entities are recognised as available-for-sale financial assets and investment securities classified as receivables in their balance sheets, totalling RMB2billion and RMB12.1 billion respectively (31 December 2017: RMB1.8 billion of available-for-sale financial assets and RMB8.6 billion of investment securities classified as receivables).

Management judges whether the Group controls investees and structured entities in accordance with the control elements listed in Note III.4. The Group involves in operating activities of investees by holding shares of investees and exercising the corresponding voting rights. When judging whether the Group controls the investees, the Group assesses the purpose of setting up the investee, related activities and decision-making mechanism, the proportion of voting rights held by the Group and its ability to influence variable interests through voting rights and other rights. After the assessment, if the Group conclude that it controls an investee, the investee will be consolidated in the consolidated financial statements.

The Group manages or invests in several structured entities, including asset management plans, debt investment plans, wealth management products, asset-backed securities and investment funds. To judge whether the Group controls such structured entities, the Group assesses the overall interests (including direct income and expected management fees) in the structured entities through its participation in the decisions on the establishment of the structured entities, the extent of its participation and related contractual arrangements, as well as its decision-making power over the structured entities. If the Group has power over the structured entities through investment contracts and other arrangements, has variable interests through its involvement in the structured entities and has the ability to affect those interests through its power over the structured entities, the Group considers that it controls the structured entities and then consolidates them in the consolidated financial statements. If the Group does not have substantive rights to the primary activities of the structured entities, or the Group acts as an agent instead of a main owner due to its insignificant proportion of the overall interests in the structured entities over which the Group has power, the Group does not consolidate the structured entities in the consolidated financial statements. For the information of the structured entities which the Group has interest in or acts as a sponsor but does not consolidate in the consolidated financial statements, see Note VI.3.

(i) The Bank's shareholding percentage and voting rights percentage are either direct or indirect percentage at the report date when the Bank has gained direct or indirect control over its subsidiaries through establishment or investment, or through business combination of entities not under common control.

(ii) Pursuant to approval from the CBRC Shanghai Branch, Minhang Rural's capital increased in January 2018. After the capital increasement, the Bank held 46.41% of the shares in Minhang Rural. According to the agreement with other shareholders of Minhang Rural, the Bank holds 55.51% of the voting rights in Minhang Rural shareholders' resolution. Therefore, the Bank believes that it controls the Minhang Rural and include it into the scope of the consolidated financial statements.

(iii) On May 2013, the Bank acquired 100% stake in China Construction Bank (Asia) Finance Limited ("CCB Asia Finance") by cash. On June 2013, CCB Asia Finance was renamed Bank of Shanghai (Hong Kong) Ltd. Hong Kong Subsidiary's capital increased by HKD1.8 billion in 2014 and its registered capital increased from HKD200 million to HKD2 billion. Hong Kong Subsidiary's capital increased by HKD2 billion in 2016 and its registered capital increased from HKD2 billion to HKD4 billion.

2. Interests in associates

Item	The Group	
	2018	2017
Associates		
- Non-significant associates	402,120	395,131

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(i) Background of non-significant associates

Name	Direct Shareholding percentage	Nature of business	Registered capital	Place of operation	Place of registration	Whether strategic significant to the Group's activities
Shangkang Yinchuang	40.00%	Asset management	RMB50 million	Shanghai	Shanghai	No
ShangCheng Finance	38.00%	Consumer finance	RMB1 billion	Shanghai	Shanghai	No
ShangYin Yihao	0.99%	Investment	RMB10.1 million	Shenzhen	Zhuhai	No
Zhonghe Hengtai	0.34%	Investment	RMB29.1 million	Shenzhen	Shenzhen	No

(ii) Summary financial information on non-significant associates

Item	The Group	
	2018	2017
Carry amount of investment	402,120	395,131
Calculated based on shareholding percentage		
- Net profit	7,789	(4,292)
- Other comprehensive income	-	-
- Total comprehensive income	7,789	(4,292)

3. Interests in structured entities not included in the consolidated financial statements

(1) Information of structured entities not included in the consolidated financial statements

The Group's structured entities not included in the consolidated financial statements include: asset management plan, wealth management products, investment fund, debt investment plan and asset-backed securities established by third parties that are directly held by the Group, as well as non-principal-guaranteed wealth management products and investment fund established by the Group. These structured entities are designed to manage investors' assets by offering them investment products to raise funds. The Group's interests in these structured entities not included in the consolidated financial statements mainly include direct investment and management fee income received for managing these structured entities.

Considering the definition of "control" described in Note III.4(2) and the principles set out in Note VI.1, relevant agreements and its investment into structured entities, the Group does not consolidate the above structured entities in the consolidated financial statements.

As at 31 December 2018 and 31 December 2017, relevant assets and liabilities as well as their carrying amount / maximum loss exposure of the Group's interests in these structured entities not included in the consolidated financial statements through direct investment are as follows:

	As at 31 December 2018				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investment securities classified as receivables	Total
Asset management plans	-	33,805,769	-	111,679,240	145,485,009
Wealth management products	-	149,765,297	-	-	149,765,297
Investment funds	167,838	144,495,883	-	-	144,663,721
Debt investment plans	-	25,109,386	-	-	25,109,386
Asset-backed securities	156,649	360,674	3,601,491	-	4,118,814
Total	**324,487**	**353,537,009**	**3,601,491**	**111,679,240**	**469,142,227**

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	As at 31 December 2017			
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment securities classified as receivables	Total
Asset management plans	-	28,669,696	120,841,274	149,510,970
Wealth management products	-	132,955,854	-	132,955,854
Investment funds	215,362	180,777,226	-	180,992,588
Debt investment plans	-	26,771,549	-	26,771,549
Asset-backed securities	-	982,399	-	982,399
Total	**215,362**	**370,156,724**	**120,841,274**	**491,213,360**

The maximum loss exposure of the asset management plans and asset-backed securities is the fair value or amortised cost at the reporting date depending on classification of financial instruments in balance sheet. The maximum loss exposure of the wealth management products, investment funds and debt investment plans is the fair value at the reporting date.

(2) Interests in structured entities established by third parties

The Group holds interests in structured entities established by third parties through direct investment. As at 31 December 2018 and 31 December 2017, relevant assets and liabilities as well as their carrying amount / maximum loss exposure of the Group's interests in these structured entities established by third parties through direct investment are as follows:

	As at 31 December 2018				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investment securities classified as receivables	Total
Asset management plans	-	33,598,093	-	111,679,240	145,277,333
Wealth management products	-	149,765,297	-	-	149,765,297
Investment funds	-	137,532,328	-	-	137,532,328
Debt investment plans	-	25,109,386	-	-	25,109,386
Asset-backed securities	156,649	360,674	3,601,491	-	4,118,814
Total	**156,649**	**346,365,778**	**3,601,491**	**111,679,240**	**461,803,158**

	As at 31 December 2017		
	Available-for-sale financial assets	Investment securities classified as receivables	Total
Asset management plans	28,002,259	120,841,274	148,843,533
Wealth management products	132,863,476	-	132,863,476
Investment funds	172,217,223	-	172,217,223
Debt investment plans	26,771,549	-	26,771,549
Asset-backed securities	982,399	-	982,399
Total	**360,836,906**	**120,841,274**	**481,678,180**

The maximum loss exposure of the asset management plans and asset-backed securities is the fair value or amortised cost at the reporting date depending on classification of financial instruments in balance sheet. The maximum loss exposure of the wealth management products, investment funds and debt investment plans is the fair value at the reporting date.

(3) Interests in structured entities established by the Bank, but not included in the consolidated financial statements

Determination of the Group as promoter of a structured entity is based on the fact that the Group has played a key role in the process of setting up the structured entity or jointly setting up the entity with other parties, and that the structured entity represents an extension of the Group's main activities and maintains close business relationship with the Group after its establishment.

According to the above determination criteria, structured entities not included in the financial statements (the Group as promoter) include the Group's non-principal-guaranteed wealth management products, investment fund and asset-backed securities. As at 31 December 2018, the carrying amount of the Group's management fees receivable in the consolidated balance sheet was RMB450 million (31 December 2017: RMB301 million).

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As at 31 December 2018 and 31 December 2017, relevant assets and liabilities as well as their carrying amount / maximum loss exposure of the Group's interests in these structured entities established by the Group through direct investment are as follows:

	As at 31 December 2018		
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
Asset management plans	-	207,676	207,676
Investment funds	167,838	6,963,555	7,131,393
Total	**167,838**	**7,171,231**	**7,339,069**

	As at 31 December 2017		
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
Asset management plans	-	667,437	667,437
Investment funds	215,362	8,560,003	8,775,365
Wealth management products	-	92,378	92,378
Total	**215,362**	**9,319,818**	**9,535,180**

The maximum loss exposure of the asset management plans, the investment funds and the wealth management products is the fair value at the reporting date.

As at 31 December 2018, balance of the non-principal-guaranteed wealth management products established by the Group but not included in the Group's the consolidated financial statements was RMB252.7 billion (31 December 2017: RMB230.2 billion), balance of the investment fund and asset management plan established by the Group but not included in the Group's the consolidated financial statements was RMB137.5 billion (31 December 2017: RMB158.8 billion).

(4) Structured entities which the Group no longer held interests in and were not included in the consolidated financial statements as at 31 December 2018:

In 2018, the Group's commission income from such non-principal-guaranteed wealth management products was RMB270 million (2017: RMB1,243 million). In 2018, the total volume of matured non-principal-guaranteed wealth management products issued by the Group amounted to RMB166.0 billion (2017: RMB401.1 billion).

In 2018, the Group's income from such asset management plan and investment fund was immaterial (2017: not material).

VII. Transfer of financial assets

In normal course of business, the Group transfers the recognised financial assets to third parties in some transactions. These financial assets are derecognised in whole or in part if they meet the criteria for derecognition. When the Group retains substantial risk and return of the transferred assets, transfer of these financial assets does not meet the criteria for derecognition and the Group still recognises these assets in the balance sheet.

1. Transferred but not entirely derecognised financial assets

The Group's transferred but not entirely derecognised transferred financial assets mainly include debt securities loaned. The counterparties may sell such debt securities or use them for guarantees if the Group has no any default, but are also obliged to return these debt securities to the Group on the agreed due date. For these transaction, the management believes that the Group retains most risk and return. Thus, these debt securities are therefore not derecognised.

	The Group and the Bank	
Debt securities lending transactions	**As at 31 December 2018**	**As at 31 December 2017**
	Held-to-maturity Investment	**Held-to-maturity Investment**
Carrying amount of transferred financial assets	6,422,043	18,138,084

2. Transferor's continuing involvement in transferred financial assets that are derecognised in their entirety

At 31 December 2018 and 31 December 2017, the Group and the Bank did not hold any financial assets that were derecognised with continuing involvement.

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VIII. Commitments and contingent liabilities

1. Credit commitments

The Group's credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit etc. The potential loss of credit commitments is assessed periodically and the provision is recognised as necessary.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The contractual amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed to completely perform as contracted. Acceptances represent 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.

As credit commitments expire without being drawn upon, the total of the contractual amounts set out in the following table do not represent the expected future cash outflows.

	The Group	
	As at 31 December 2018	As at 31 December 2017
Credit card commitments	36,816,594	30,076,992
Irrevocable loan commitments		
- original contractual maturity less than 1 year	-	331,774
- original contractual maturity more than 1 year (inclusive)	19,980,739	22,256,831
Sub-total	**56,797,333**	**52,665,597**
Bank acceptances	60,756,977	49,439,368
Guarantees	60,046,674	50,732,587
Letters of credit	7,050,980	6,125,847
Sub-total	**127,854,631**	**106,297,802**
Total	**184,651,964**	**158,963,399**

2. Credit risk weighted amount

	The Group	
	As at 31 December 2018	As at 31 December 2017
Credit risk weighted amount of credit commitments	97,007,044	78,874,830

Credit risk weighted amount of credit commitments was calculated according to the requirements set out in the Administrative Measures on Capitals of Commercial Banks (For Trial Implementation) issued by CBRC.

3. Operating lease commitments

As at the end of the Relevant Periods, the Group's future minimum lease payments under non-cancellable operating leases for properties and other assets were as follows:

	The Group	
	As at 31 December 2018	As at 31 December 2017
Within 1 year (inclusive)	519,887	505,355
After 1 year but within 2 years (inclusive)	378,248	334,154
After 2 years but within 3 years (inclusive)	255,527	208,029
After 3 years but within 5 years (inclusive)	225,627	219,237
Above 5 years	69,145	116,391
Total	**1,448,434**	**1,383,166**

4. Capital commitments

As at the balance sheet date, the authorized capital commitment of the Group were as follows:

	As at 31 December 2018	As at 31 December 2017
Contracted for but not paid	302,399	590,031
Authorised but not contracted for	95,739	144,960

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5. Underwriting and redemption commitments

(1) As at the end of the Relevant Periods, there were no unexpired commitments for underwriting bonds of the Group (31 December 2017: Nil).

(2) As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded in the markets at the redemption date. The redemption commitments below represent the coupon value of PRC government bonds underwritten and sold by the Group and the Bank but not yet matured at the end of the Relevant Periods:

	As at 31 December 2018	As at 31 December 2017
Redemption commitments	7,059,968	6,828,324

6. Unresolved litigations and disputes

As at 31 December 2018, the total related amount of litigations and disputes whereby the Group acted as defendants was RMB105 million (31 December 2017: RMB37 million). According to the opinion of the Group's lawyers and external lawyers, the Group recognised the related litigation provision (see Note V. 27), which they believed to be reasonable and sufficient.

As at 31 December 2018, there were a number of legal proceedings outstanding against the Group (including the cases in which the Group act as the plaintiff). The Group recognised the related litigation provision for predictable events.

IX. Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrust assets are not assets of the Group and are not recognised in the balance sheets. The relevant surplus funding is accounted for as deposits from customers.

	The Group	
	As at 31 December 2018	As at 31 December 2017
Entrusted loans	172,875,342	273,992,116
Entrusted funds	172,875,342	273,992,116

X. Pledged assets

1. Assets pledged as security

The secured liabilities related to assets pledged as security are presented as borrowings from central bank, financial assets sold under repurchase agreements, deposits from customers and other liabilities at the end of the relevant periods.

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Borrowings from central bank	102,897,000	81,500,000	102,832,000	81,500,000
Financial assets sold under repurchase agreements	61,151,258	78,573,169	61,151,258	78,359,419
Deposits from customers	36,660,520	23,218,000	36,660,520	23,218,000
Other liabilities	89,715	-	-	-
Total	**200,798,493**	183,291,169	**200,643,778**	183,077,419

In addition, the Group provided pledged assets for bonds which were held from debt securities borrowing transactions. As at 31 December 2018, the fair value of the relevant bonds amounted to RMB 182 million (31 December 2017: Nil).

Transactions above are conducted under customary terms of relevant businesses.

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(1) Carrying value of pledged assets analysed by asset type

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Securities				
- Government bonds	189,041,875	153,843,765	189,041,875	153,843,765
- Bank and other financial institution bonds	14,545,305	15,650,726	14,469,848	15,650,726
- Corporate bonds	180,037	-	-	-
Sub-total	**203,767,217**	169,494,491	**203,511,723**	169,494,491
Commercial bills	15,869,139	32,733,656	15,869,139	32,733,656
Credit assets	1,511,477	-	1,433,120	-
Bank certificate of deposit	291,267	-	291,267	-
Asset management plans	-	527,250	-	-
Total	**221,439,100**	202,755,397	**221,105,249**	202,228,147

(2) Carrying value of pledged assets analysed by statement of financial position classification

	The Group		The Bank	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Loans and advances to customers	17,380,616	32,733,656	17,302,259	32,733,656
Available-for-sale financial assets	839,422	527,250	583,928	-
Held-to-maturity investments	203,219,062	162,384,567	203,219,062	162,384,567
Investment securities classified as receivables	-	7,109,924	-	7,109,924
Total	**221,439,100**	202,755,397	**221,105,249**	202,228,147

2. Collaterals accepted as securities for assets

The Group conducts resale agreements and bonds lending under customary terms of placements, and holds collaterals for these transactions. As at the end of each of the Relevant Periods, the Group did not hold any resale agreement or bonds lending that collaterals were permitted to sell or re-pledge in the absence of the counterparty's default on the agreements.

XI. Related parties and transactions

1. The change of proportion of shares of the Group held by the shareholders during the relevant periods

Company name	Proportion of the Bank held by the company	
	As at 31 December 2018	As at 31 December 2017
Shanghai Lianhe Investment Co., Ltd. ("Lianhe Investment")	13.38%	13.30%
Shanghai International Port (Group) Co., Ltd. ("SIPG")	7.34%	6.48%
Santander Central Hispano S.A. ("Santander")	6.50%	6.48%
TCL Corporation Co.,Ltd.	4.99%	4.99%
China Jianyin Investment Co., Ltd.	4.84%	4.84%
China Shipbuilding International Trading Co.,Ltd.	4.08%	4.08%
Shanghai Commercial Bank Limited	3.00%	2.70%
Shanghai Huangpu District State-owned Assets Corporation	1.94%	1.94%
Shanghai Luwan Financial Investment Company	1.06%	1.06%

In addition to the requirements of the CASs, and Administrative Procedures on the Information Disclosures of Listed Companies, the major shareholders are also identified in accordance with the Provisional Measures on Administration of Equities of Commercial Banks issued by the CBRC on 5 January 2018.

In accordance with the Provisional Measures on Administration of Equities of Commercial Banks, major shareholder of a commercial bank shall mean a shareholder who holds or controls 5% or more of the shares or voting rights of a commercial bank, or who holds less than 5% of the total capital or total shares but exerts significant influence over business management of the commercial bank. Significant influence shall include but not be limited to, appointing directors, supervisors or senior management personnel to a commercial bank, exerting influence over the commercial bank's financial and business management decision-making through an agreement or any other method.

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2. Major shareholders of the Group

Company name	Legal representative	Place of registration	Registered capital as at 31 December 2018
Lianhe Investment	Qin Jian	Shanghai	RMB3.5 billion
SIPG	Chen Xuyuan	Shanghai	RMB23.2 billion
Santander	Ana Botin	Santander	EUR8.1 billion
TCL Corporation Co.,Ltd.	Li Dongsheng	Guangdong	RMB13.55 billion
China Jianyin Investment Co., Ltd.	Zhong Jianan	Beijing	RMB20.692 billion
China Shipbuilding International Trading Co.,Ltd.	Li Hongtao	Shanghai	RMB4.39 billion
Shanghai Commercial Bank Limited	Guo Xizh	Hong Kong	HKD2 billion
Shanghai Huangpu District State-owned Assets Corporation	Zhu Xiaodong	Shanghai	RMB1.505 billion
Shanghai Luwan Financial Investment Company	Kong Guanghui	Shanghai	RMB0.15 billion

The details of the main business are as follows:

Lianhe Investment: Mainly engaged in the investment business of important infrastructure construction projects, technological transformation of enterprises, high-tech, financial services, agriculture, real estate and other industrial development projects, consulting agency, agent sales agency, information research and talent training.

SIPG: Mainly engaged in domestic and international cargo (including containers) loading and unloading (including barge), storage, transit and surface transport; container deconsolidation, cleaning, repairing, manufacturing and leasing; international shipping, warehousing, storage, processing, distribution and logistics information management; provide international passengers with waiting vessels and ship facilities and services; ship diversion, towing, shipping agents, freight forwarders; ship port services such as supply of fuel materials, supplies of living goods; port facilities lease; port information, technical consulting services, port terminal construction, management and operation; port lifting equipment, handling machinery, mechanical and electrical equipment and accessories wholesale and import and export.

Santander: Mainly engaged in consumer credit, mortgage, lease financing, factoring, mutual funds, pension funds, insurance, commercial credit, investment banking services, structured financing and mergers and acquisitions consulting business.

TCL Corporation Co.,Ltd.: Mainly engaged in research, development, production, sales of electronic products and communication equipment, new optoelectronics, liquid crystal display devices, hardware & electric material, VCD, DVD video player, building materials, general machinery, electronic computer technology services, freight storage (excluding hazardous chemicals), film equipment maintenance, recycling of waste materials, import and export of goods and technology, venture capital business and venture capital consulting, entrusted to manage the venture capital of other venture capital institutions, provide entrepreneurial management services for start-up enterprises, participate in the initiation of venture capital institutions and investment management consultancy, real estate leasing, provision of information system services, provision of conference services, provision of electronic product technology development services, development and sales of software products, patent transfer, agent declaration services, provision of consultancy services, payment settlement.

China Jianyin Investment Co., Ltd.: Mainly engaged in investment and investment management, asset management and disposal, corporate management, real estate leasing, consulting.

China Shipbuilding International Trading Co.,Ltd.: Mainly engaged in self-operated and agent import and export business of various commodities and technologies, processing with imported materials and custom manufacturing with materials, designs or samples supplied and compensation trade, operating counter trade and entrepot trade; domestic trade.

Shanghai Commercial Bank Limited: Mainly engaged in providing banking and banking related financial services in Hong Kong, the United States, the United Kingdom and China.

Shanghai Huangpu District State-owned Assets Corporation: Mainly engaged in asset investment, holding, asset adjustment and shareholding leasing. Authorization and entrustment of state-owned assets, technical advice and technical services of financial investment information.

Shanghai Luwan Financial Investment Company: Mainly engaged in providing financial investment consulting, metal materials, building materials, photographic equipment, and daily necessities.

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3. Transactions with related parties

The Group's material transactions and balances with its related parties are summarised as follows:

	Lianhe Investment and its subsidiaries	SIPG and its subsidiaries	Santander and its subsidiaries	Other major shareholders and other related parties of major shareholders	Other related corporations	Related natural person	Total	Ratio to similar transactions
Transactions with related parties during the year ended 31 December 2018:								
Interest income	20,098	67,255	870	109,687	305,999	6,093	510,002	0.67%
Interest expense	(10,958)	(8,948)	(350)	(139,970)	(156,650)	(2,620)	(319,496)	0.70%
Fee and commission income	989	9	-	334	5,970	9	7,311	0.11%
Fee and commission expense	-	-	-	-	(1)	-	(1)	0.00%
Net investment gains	-	1,221	-	-	244,703	-	245,924	3.11%
Net gains / (losses) from changes in fair value	-	7,855	(1,499)	6,942	(56,265)	-	(42,967)	0.92%
Other operating income	41	1	-	1	156	4	203	0.21%
Non-operating income	-	-	-	6,245	-	-	6,245	3.14%
Other comprehensive income, net of tax	-	-	-	7,664	(33,835)	-	(26,171)	2.22%
Balances with related parties as at 31 December 2018:								
Deposit with banks and other financial institutions	-	-	2,947	838,870	71,459	-	913,276	6.05%
Placements with banks and other financial institutions	-	-	894,225	-	900,003	-	1,794,228	1.56%
Financial assets at fair value through profit or loss	-	-	-	-	16,028	-	16,028	0.09%
Derivative financial assets	-	-	-	79,918	-	-	79,918	6.46%
Interests receivable	553	1,046	130	8,767	27,981	195	38,672	0.40%
Loans and advances to customers (Note (i))	407,841	750,000	-	1,026,788	2,839,025	147,056	5,170,710	0.63%
Available-for-sale financial assets	-	-	-	296,104	8,315,145	-	8,611,249	2.14%
Held-to-maturity investments	-	-	-	-	195,516	-	195,516	0.06%
Long-term equity investments	-	-	-	-	402,120	-	402,120	100.00%
Other assets	-	-	-	-	1,191,789	-	1,191,789	10.80%
Deposits from banks and other financial institutions	-	-	(93)	(13,146,366)	(1,220,097)	-	(14,366,556)	3.89%
Placements from banks and other financial institutions	-	-	-	-	(191,424)	-	(191,424)	0.28%
Derivative financial liabilities	-	-	(1,499)	(64,013)	(4,138)	-	(69,650)	8.40%
Deposits from customers	(3,103,417)	(2,497,010)	-	(11,537,070)	(8,575,825)	(44,299)	(25,757,621)	2.47%
Interests payable	(3,654)	(8,495)	(1)	(72,437)	(28,586)	(889)	(114,062)	0.66%
Significant off-balance sheet items with related parties as at 31 December 2018:								
Loan commitments	2,100,015	151,080	-	1,290,507	-	-	3,541,602	17.73%
Guarantees	-	800	-	612	798,272	-	799,684	1.33%
Letters of credit	316,423	-	-	-	362,182	-	678,605	9.62%
Loans guaranteed by related parties	407,836	-	-	30,000	-	-	437,836	0.08%
Entrusted loans	1,416,000	4,507,000	-	215,833	-	-	6,138,833	3.55%
Entrusted funds	1,924,399	4,507,000	-	-	250,000	-	6,681,399	3.86%
Bank acceptances	-	-	-	-	115,083	-	115,083	0.19%

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	Lianhe Investment and its subsidiaries	SIPG and its subsidiaries	Santander and its subsidiaries	Other major shareholders and other related parties of major shareholders	Other related corporations	Related natural person	Total	Ratio to similar transactions
Transactions with related parties during the year ended 31 December 2017:								
Interest income	-	2,321	24,533	138,241	228,018	-	393,113	0.65%
Interest expense	(18,238)	(2,373)	(17,864)	(38,393)	(279,471)	-	(356,339)	0.87%
Fee and commission income	2	-	29	2,237	270	7	2,545	0.04%
Net investment gains / (losses)	-	-	-	-	(292)	-	(292)	0.00%
Net losses from changes in fair value	-	-	(7,855)	-	(473)	-	(8,328)	0.15%
Other operating income	-	-	-	-	7,195	-	7,195	6.48%
Non-operating income	-	-	-	1,628	-	-	1,628	1.33%
Other comprehensive income, net of tax	-	-	-	(2,914)	47,487	-	44,573	4.22%
Balances with related parties as at 31 December 2017:								
Deposit with banks and other financial institutions	-	2,763	-	559,495	864,860	-	1,427,118	3.68%
Placements with banks and other financial institutions	-	627,856	-	813,746	705,024	-	2,146,626	2.21%
Financial assets at fair value through profit or loss	-	-	1,402,650	-	295,048	-	1,697,698	14.69%
Derivative financial assets	-	-	-	-	15,310	-	15,310	1.82%
Interests receivable	-	3,974	1,150	15,422	3,619	-	24,165	0.31%
Loans and advances to customers (Note (i))	-	-	660,000	1,458,880	333,416	-	2,452,296	0.38%
Available-for-sale financial assets	-	-	-	296,433	12,751,053	-	13,047,486	3.10%
Held-to-maturity investments	-	-	-	195,516	-	-	195,516	0.07%
Long-term equity investments	-	-	-	-	395,131	-	395,131	100.00%
Other assets	-	-	-	-	230,707	-	230,707	1.93%
Deposits from banks and other financial institutions	-	(95)	-	(3,990,874)	(11,616,157)	-	(15,607,126)	4.75%
Placements from banks and other financial institutions	-	(412,993)	-	(17,575)	-	-	(430,568)	0.83%
Derivative financial liabilities	-	-	-	-	(15,038)	-	(15,038)	1.11%
Deposits from customers	(1,525,050)	-	(4,862,921)	(1,531,910)	(3,399,244)	(17,271)	(11,336,396)	1.23%
Interests payable	(25,570)	(2,128)	(22,368)	(39,342)	(69,866)	(2)	(159,276)	0.96%
Significant off-balance sheet items with related parties as at 31 December 2017:								
Loan commitments	-	-	151,080	187,309	-	-	338,389	1.50%
Guarantees	-	-	800	-	-	-	800	0.00%
Letters of credit	-	-	-	2,305	-	-	2,305	0.04%
Loans guaranteed by related parties	574,474	-	160,000	722,055	-	-	1,456,529	0.29%
Entrusted loans	-	-	9,340,000	1,865,948	-	-	11,205,948	4.09%
Entrusted funds	747,966	-	5,310,000	5,892,500	-	-	11,950,466	4.36%

(i) As at 31 December 2018, there was no individually assessed provision for impairment losses for the above loans and advances to related parties (31 December 2017: Nil).

The Group's transactions with related parties are conducted in accordance with normal commercial terms and normal business procedures, and its pricing principles are consistent with those of independent third parties.

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4. Key management personnel

The remuneration of key management personnel during the Relevant Periods were as follows:

	The Group	
	2018	2017
Remuneration of key management personnel	11,481	13,665

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Senior Management. According to China's laws and regulations, no provision was made for the bonus for these key management personnel in 2017, but the bonus that has not been made provision is not expected to have a significant impact on the financial statements of the Group and the Bank in 2017.

5. Transactions between the Bank and its subsidiaries

Significant transactions with subsidiaries:

	2018	2017
Interest income	52,587	30,099
Interest expense	(15,389)	(12,818)
Fee and commission income	3,344	2,125
Interest income	669	669

Significant balances outstanding as at the balance sheet date:

	2018	2017
Deposits with banks and other financial institutions	50,000	50,000
Placements with banks and other financial institutions	756,797	1,838,051
Interests receivable	3,098	3,201
Other Assets	992	696
Deposits from banks and other financial institutions	(751,396)	(412,920)
Deposits from customers	(28,001)	(16,673)
Interests payable	(1,743)	(632)
Other Liabalities	(334)	-
Guarantees	3,876,654	3,298,733

All the intra-group transactions and intra-group balances are eliminated when preparing the consolidated financial statements.

6. Transactions with the annuity plan

Apart from the obligations for defined contributions to the Annuity Fund, no other transactions were conducted between the Group and the Annuity Fund during the Relevant Periods.

XII Segment reporting

The Group manages its business by business lines and geographical areas. The Group has presented segments reporting in a manner consistent with the way in which information is reported internally to management for the purposes of resource allocation and performance assessment. The Group defines reporting segments based on the following business operating segments:

Wholesale financial business

This segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans, deposit products, trade financing, settlement services, investment banking services, asset custody services, interbank borrowing, repurchase transactions and other interbank business, financial market business and equity investment.

Retail financial business

This segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, personal wealth management services, remittance services, securities agency and credit card services, etc.

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Others

This segment represents other miscellaneous activities, none of which constitutes a separately reportable segment.

Measurement of segment assets and liabilities and segment income and expenses is based on the Group's accounting policies.

In order to implement the customer-centric business philosophy for Boutique Bank strategy, the group further deepens customer management, strengthens business linkage and cross-selling and improves the ability of integrated financial services in the wholesale financial business. Thus, the former corporate financial business segment and treasury business segment are merged into wholesale financial business segment. The Group has restated the comparative figure for the purpose of comparison.

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 "inter-segment 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. Segment income, expenses, assets, and liabilities are determined before intra-group balances and intra- group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the relevant periods to acquire fixed assets, intangible assets and other long-term assets.

1. Segment results, assets and liabilities

	The Group			
	2018			
	Wholesale Financial Business	Retail Financial Business	Others	Segment Total
External net interest income / (expense)	20,872,587	9,069,492	(5,250)	29,936,829
Inter-segment net interest income / (expense)	489,003	(489,003)	-	-
Net interest income / (expense)	**21,361,590**	**8,580,489**	**(5,250)**	**29,936,829**
Fee and commission income	3,967,451	2,594,290	182,754	6,744,495
Fee and commission expense	(266,599)	(498,357)	-	(764,956)
Net fee and commission income	**3,700,852**	**2,095,933**	**182,754**	**5,979,539**
Other income	-	-	42,998	42,998
Net investment gains	7,812,419	-	93,714	7,906,133
Net gains / (losses) from changes in fair value	4,687,872	-	(35,390)	4,652,482
Net foreign exchange (losses) / gains	(4,733,263)	14,544	-	(4,718,719)
Other operating income	8,939	-	86,488	95,427
Losses from asset disposals	-	-	(6,867)	(6,867)
Operating income	**32,838,409**	**10,690,966**	**358,447**	**43,887,822**
Tax and surcharges	(269,497)	(175,891)	(1,340)	(446,728)
General and administrative expenses	(5,482,580)	(3,422,169)	(101,642)	(9,006,391)
Impairment losses	(12,364,649)	(2,954,962)	(12,290)	(15,331,901)
Other operating expenses	(18,481)	-	(2)	(18,483)
Operating expenses	**(18,135,207)**	**(6,553,022)**	**(115,274)**	**(24,803,503)**
Operating profit	14,703,202	4,137,944	243,173	19,084,319
Add: Non-operating income	64,916	101,473	32,648	199,037
Less: Non-operating expenses	(9,740)	(2,580)	(19,164)	(31,484)
Profit before tax	**14,758,378**	**4,236,837**	**256,657**	**19,251,872**
Segment assets	**1,745,832,186**	**280,129,355**	**1,810,858**	**2,027,772,399**
Segment liabilities	**1,626,692,312**	**238,932,075**	**379,404**	**1,866,003,791**
Other segment information				
Credit commitments	**152,392,765**	**32,259,199**	**-**	**184,651,964**
Depreciation and amortisation	**(396,122)**	**(344,537)**	**(3,507)**	**(744,166)**
Capital expenditure	**(1,224,276)**	**(1,064,847)**	**(10,839)**	**(2,299,962)**

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	The Group			
	2017			
	Wholesale Financial Business	Retail Financial Business	Others	Segment Total
External net interest income / (expense)	16,789,152	2,336,072	(7,915)	19,117,309
Inter-segment net interest (expense) / income	(2,041,875)	2,041,875	-	-
Net interest income / (expense)	**14,747,277**	**4,377,947**	**(7,915)**	**19,117,309**
Fee and commission income	4,388,752	2,179,276	217,530	6,785,558
Fee and commission expense	(292,105)	(237,667)	-	(529,772)
Net fee and commission income	**4,096,647**	**1,941,609**	**217,530**	**6,255,786**
Other income	-	-	29,105	29,105
Net investment gains	9,617,598	-	18,925	9,636,523
Net (losses) / gains from changes in fair value	(5,579,918)	-	10,006	(5,569,912)
Net foreign exchange gains	3,507,312	27,877	-	3,535,189
Other operating income	9,798	-	101,292	111,090
Gains from asset disposals	613	-	9,292	9,905
Operating income	**26,399,327**	**6,347,433**	**378,235**	**33,124,995**
Tax and surcharges	(242,778)	(98,817)	(2,084)	(343,679)
General and administrative expenses	(5,139,156)	(2,877,574)	(88,628)	(8,105,358)
Impairment losses	(8,161,450)	(472,266)	(37,599)	(8,671,315)
Other operating expenses	(18,913)	-	(7)	(18,920)
Operating expenses	**(13,562,297)**	**(3,448,657)**	**(128,318)**	**(17,139,272)**
Operating profit	12,837,030	2,898,776	249,917	15,985,723
Add: Non-operating income	10,845	78,220	33,662	122,727
Less: Non-operating expenses	(5,423)	(926)	(19,639)	(25,988)
Profit before tax	**12,842,452**	**2,976,070**	**263,940**	**16,082,462**
Segment assets	**1,628,898,866**	**177,299,767**	**1,568,305**	**1,807,766,938**
Segment liabilities	**1,446,892,387**	**213,027,099**	**406,049**	**1,660,325,535**
Other segment information				
Credit commitments	**128,886,407**	**30,076,992**	**-**	**158,963,399**
Depreciation and amortisation	**(385,553)**	**(278,924)**	**(3,344)**	**(667,821)**
Capital expenditure	**(301,402)**	**(218,046)**	**(2,614)**	**(522,062)**

2. Geographical information

The Group operates principally in mainland China. Besides the Head Office, branches and sub-branches in Shanghai, it has set up branches and sub-branches in Ningbo, Nanjing, Hangzhou, Tianjin, Chengdu, Shenzhen, Beijing and Suzhou. The Group also established subsidiaries in Shanghai, Zhejiang Province, Jiangsu Province, Sichuan Province and Guangdong Province respectively. The Group has established subsidiaries outside mainland.

When presenting geographical information, operating income is allocated based on the locations of the branches which generate income. Total assets are allocated based on geographical location of the underlying assets.

Geographical areas, as defined for management reporting purposes, are as follows:

- "Shanghai" region refers to the Head Office, branches and sub-branches in Shanghai, Minhang Rural, Asset Management and BOSC Ruijin;

-"Yangtze River Delta (excluding Shanghai)" refers to the area serviced by the following branches and subsidiaries of the Bank: Ningbo, Nanjing, Hangzhou, Suzhou, Qujiang Rural and Jiangning Rural;

-"Pearl River Delta (including Hong Kong)" refers to the area serviced by the following branches of the Bank: Shenzhen, Hong Kong Subsidiary, BOSC International, BOSC International Capital Limited, BOSC International Asset Management Limited, BOSC International Investment Limited, BOSC International Securities Limited, BOSC International (Shenzhen) Company Limited, BOSC International Advisory (Shenzhen) Company Limited, BOSC International Equity Investment Fund Management (Shenzhen) Company Limited and BOSC International Investment (Shenzhen) Company Limited;

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-"Bohai Rim" refers to the area serviced by the following branches of the Bank: Beijing and Tianjin;

-"Central and Western" refers to the area serviced by the following branches and subsidiaries of the Bank: Chengdu and Chongzhou Rural;

-"Outside mainland (excluding Hong Kong)" refers to the area serviced by the following subsidiaries: BOSC International (BVI) Limited and BOSC International Investment (BVI) Limited.

Since the structure of the Group's internal assets and liabilities was changed along with the change in the structure of assets and liabilities in each segment, the Group has restated the comparative figure for the purpose of comparison.

	The Group	
	As at 31 December 2018	As at 31 December 2017
Operating Income		
Shanghai	27,600,028	22,558,187
Yangtze River Delta (excluding Shanghai)	6,982,508	4,216,996
Pearl River Delta (including Hong Kong)	4,636,041	3,365,683
Bohai Rim	3,874,430	2,367,977
Central and Western	788,624	616,152
Outside mainland (excluding Hong Kong)	6,191	-
Total	**43,887,822**	**33,124,995**
Profit before income tax		
Shanghai	12,907,896	12,021,967
Yangtze River Delta (excluding Shanghai)	3,499,768	2,957,521
Pearl River Delta (including Hong Kong)	1,585,602	1,319,423
Bohai Rim	949,508	369,257
Central and Western	302,907	(585,706)
Outside mainland (excluding Hong Kong)	6,191	-
Total	**19,251,872**	**16,082,462**
Total Assets		
Shanghai	1,424,782,110	1,308,060,142
Yangtze River Delta (excluding Shanghai)	205,033,505	229,224,856
Pearl River Delta (including Hong Kong)	219,273,234	180,510,802
Bohai Rim	235,832,889	173,170,098
Central and Western	36,636,312	30,270,511
Outside mainland (excluding Hong Kong)	3,519,830	1
Elimination	(97,305,481)	(113,469,472)
Total	**2,027,772,399**	**1,807,766,938**
Total liabilities		
Shanghai	1,274,097,173	1,169,542,665
Yangtze River Delta (excluding Shanghai)	195,902,044	221,549,698
Pearl River Delta (including Hong Kong)	213,450,231	174,775,638
Bohai Rim	236,371,912	173,701,182
Central and Western	36,102,717	30,355,101
Outside mainland (excluding Hong Kong)	3,514,471	-
Elimination	(93,434,757)	(109,598,749)
Total	**1,866,003,791**	**1,660,325,535**
Credit commitment		
Shanghai	82,437,708	76,145,625
Yangtze River Delta (excluding Shanghai)	38,364,173	25,226,715
Pearl River Delta (including Hong Kong)	34,371,404	23,296,930
Bohai Rim	25,657,062	29,650,857
Central and Western	3,821,617	4,643,272
Total	**184,651,964**	**158,963,399**

XIII. Risk management

The Group mainly has exposure to the following risks from financial instruments:

• credit risk

• market risk

• liquidity risk

• operational risk

This note presents information about the Group's exposure to each of the above risks and its changes during the year, as well as the Group's objectives, policies and processes for measuring and managing risks, and the Group's capital management.

Risk management framework

The Board is ultimately responsible for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is primarily responsible for reviewing the risk strategies and risk management policies, evaluating risk management, internal control structure and system effectiveness, supervising the implementation of senior management in risk management, urging the senior management to take the necessary measures to identify, measure, monitor and control the risks, and recommend to the Board.

To identify, evaluate, monitor, control and report the risks, the Group has designed a comprehensive risk management framework and procedures. The Vice President in charge of risk management is responsible for overall risk management. The Group's risk management policies and systems are regularly reviewed and revised to reflect changes in market conditions, products and services.

The Group defined the "three lines of defense" management system and established organizational structure of risk management and the implementation of a comprehensive risk management. The senior management, along with the Risk Management Committee, Asset and Liability Management Committee, Information Technology Management Committee and Accountability Commission and other committees are responsible for management, coordination, review, decision-making and supervision of main risks, including credit risk, market risk, liquidity risk, operational risk and information technology risk. The group formed the risk management framework which include "first line of defense" for direct management, "second lines of defense" for remanagement and "the third line of defense" for resupervision.

The group set up credit department under corporate business department of head office and every branch and risk management team or post in corporate business department, small business financial services center, retail business department, credit card center, financial market department and other relevant departments. The team or post will keep separate and independent of business marketing team, carrying out all kinds of risk management responsibilities directly in the process of all kinds of business performance. They take responsibility of risk identification, assessment, monitoring, controlling and reporting to forward risk pass, establish unified risk system whose power according with the responsibility and the first line of risk management.

Risk management department, credit department, audit department of credit management and legal compliance department under the group head office and branches set up the "the second line" for risk management and it strengthens management functions based on direct management of "the first line" .The above departments promote the construction of a comprehensive risk management system, formulate the overall policies, procedures and standards and ensure consistency and effectiveness of risk management under the authorization of senior management. It also takes responsibility to review and remanage credit business approved by "the first line " in the terms of policies and procedures for compliance, business focus and prudential credit plan, measure the quality of assets and risk status really, objectively, timely and accurately; provide independent assessment, supervision, restriction and supplement for management effectiveness of "the first line".

The audit department under group head office and branches as "the third line" of risk management, is in charge of strengthening resupervision function of the "first line" and "second line" and check up, supervise and evaluate the validity of risk management.

1. Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group. It arises primarily from the Group's credit businesses and treasury businesses such as investment in debt securities.

Credit business

To identify, assess, monitor and manage credit risk, the Group has established a reporting structure, credit policies and procedures catering for effective credit risk management and implemented systematic control procedures. The Group continues to optimise its credit approval process, reinforce its credit risk management through its processes, clarify functions and responsibilities of the credit approval cycle, formulate the credit policies, management framework and the Group's marketing strategies from time to time, analyse the development of lending businesses and the level of risk management, and approve loans within the authorised limit in accordance with relevant rules, regulations and monetary policies in the PRC and the Group's business strategy.

Customer relationship managers from the relevant business departments will conduct an independent and prudent pre-disbursement investigation on the application for the loan submitted by customers. Pre-loan investigations mainly involve collecting customer information, reviewing credit application materials and preparing a credit investigation report by customer relationship managers.

The loan reviewers of the Group conduct the review primarily on the basis of the investigation report submitted by the customer relationship managers, as well as the knowledge they obtained through indirect channels about the customers, their upstream and downstream enterprise and related industries. After the loan reviewers conduct a thorough examination, they may issue a review report which includes an evaluation of the credit risk involved in the application.

According to authorised credit approval limit, credit applications shall be approved by authorised officers or loan approval committees as appropriate. These authorised officers and members of loan approval committees are generally selected from credit approval specialists of the Group.

In general, the credit applications which are approved by the relevant business departments are subject to re-affirmation by the Credit Review Department. The Credit Review Department reviews the procedural compliance and key risk analysis of each credit approval report in order or reach a decision on whether or not to re-affirm such credit approval.

For loans secured with collateral, the Group conducts collateral appraisals prior to the loan approval and monitors any subsequent changes in the fair value. With respect to a third-party guarantor, the Group assess the guarantor's financial situation, credit history and ability to meet its obligations in order to determine the appropriate guarantee amount. To mitigate risks, where appropriate, the Group may require customers to provide collateral and guarantees.

Before signing credit agreement, the loan disbursement officer of the Group shall review the credit agreement, the status of compliance of pre-conditions for loan disbursement, the collateral arrangement and other loan disbursement procedures. The loan disbursement officers are independent from customer relationship managers who are preparing credit investigation report and authorised officers for credit approval procedures.

The Group employs a variety of methods for conducting post-disbursement monitoring. By conducting scheduled or non-scheduled on-site or off-site inspections, the Group monitors the corporate customers' business operations and financial situation, individual customers' income status, the collateral and the guarantor, and promptly issues risk warnings.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. In compliance with relevant requirements of the CBRC, the Group conducts credit risk grade review on a regular basis. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans. In general, loans are impaired when one or more events demonstrate that there is objective evidence that losses will be incurred. The allowances for impairment loss on impaired loans and advances are assessed collectively or individually as appropriate.

The core definitions of the five-tier grading 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 collateral or guarantees are invoked.

Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.

Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Treasury business

The Group's treasury operations involve investments in PRC government bonds, other government bonds, financial institution bonds, corporate bonds, inter-bank money market transactions and bank notes transfer discount, etc.

The Group manages credit risk management for treasury operations in accordance with the credit risk management policies, procedures and systems. The Group conducts credit risk management in respect of the treasury operations primarily through the management of credit limits for counterparties, and assigns a total credit limit for domestic and foreign financial institutions and sets sub-limits for various business lines. In addition, the Financial Markets Department works closely with credit management department, risk management department and other departments to form an integrated risk monitoring system for treasury operations.

(1) Maximum exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the Relevant Periods, including derivative financial instruments. The maximum exposure to credit risk in respect of these off-balance sheet items as at the balance sheet date is disclosed in Note VIII.

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(2) Financial assets analysed by credit quality are summarised as follows:

	The Group				
	As at 31 December 2018				
	Deposits / placements with banks and other financial institutions	Financial assets held under resale agreements	Loans and advances	Investments	Others
Impaired					
Individually assessed gross amount	-	-	8,018,557	3,432,720	-
Provision for impairment losses	-	-	(5,004,967)	(2,081,471)	-
Sub-total	**-**	**-**	**3,013,590**	**1,351,249**	**-**
Collectively assessed gross amount	-	-	1,693,140	-	-
Provision for impairment losses	-	-	(1,430,128)	-	-
Sub-total	**-**	**-**	**263,012**	**-**	**-**
Overdue but not impaired					
Less than 3 months (inclusive)	-	-	5,874,009	900,000	-
Neither overdue nor impaired gross amount	-	-	(1,588,844)	(122,900)	-
Sub-total	**-**	**-**	**4,285,165**	**777,100**	**-**
Total	**130,471,005**	**36,599,042**	**835,109,949**	**683,027,754**	**16,926,408**
Impaired Individually assessed gross amount	(36,223)	(230,418)	(24,311,520)	(5,645,994)	(126,052)
Provision for impairment losses	**130,434,782**	**36,368,624**	**810,798,429**	**677,381,760**	**16,800,356**
Sub-total	**130,434,782**	**36,368,624**	**818,360,196**	**679,510,109**	**16,800,356**

	The Group				
	As at 31 December 2017				
	Deposits / placements with banks and other financial institutions	Financial assets held under resale agreements	Loans and advances	Investments	Others
Impaired					
Individually assessed gross amount	-	-	6,618,886	2,152,293	-
Provision for impairment losses	-	-	(4,289,640)	(2,117,994)	-
Sub-total	**-**	**-**	**2,329,246**	**34,299**	**-**
Collectively assessed gross amount	-	-	1,024,619	-	-
Provision for impairment losses	-	-	(907,440)	-	-
Sub-total	**-**	**-**	**117,179**	**-**	**-**
Overdue but not impaired					
Less than 3 months (inclusive)	-	-	1,388,178	-	-
More than 3 months but less than 6 months (inclusive)	-	-	-	-	-
More than 6 months	-	-	3,800	-	-
Gross amount	-	-	1,391,978	-	-
Provision for impairment losses	-	-	(223,443)	-	-
Sub-total	**-**	**-**	**1,168,535**	**-**	**-**
Neither overdue nor impaired gross amount	**135,993,344**	**25,944,305**	**654,986,134**	**628,732,426**	**10,918,823**
Provision for impairment losses	(26,799)	(135,454)	(15,409,770)	(6,138,582)	(29,020)
Sub-total	**135,966,545**	**25,808,851**	**639,576,364**	**622,593,844**	**10,889,803**
Total	**135,966,545**	**25,808,851**	**643,191,324**	**622,628,143**	**10,889,803**

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(i) Investments comprise transactional debt instruments at fair value through profit or loss, debt instruments investment of available-for-sale financial assets, held-to-maturity investments and investment securities classified as receivables.

(ii) Others comprise financial assets such as derivative financial assets, interests receivable and other receivables.

(3) Credit ratings of receivables from inter-banks

Receivables from inter-banks include deposits and placements with banks and other financial institutions, and financial assets held under resale agreements. Receivables from inter-banks neither overdue nor impaired are rated with reference to major rating agencies recognised by the PBOC.

	The Group	
	As at 31 December 2018	As at 31 December 2017
Neither overdue nor impaired		
- grade A to AAA	99,433,511	75,933,676
- grade B to BBB	-	65,018
- unrated	67,636,536	85,938,955
Sub-total	**167,070,047**	**161,937,649**
Provision for impairment losses	(266,641)	(162,253)
Carrying amount	**166,803,406**	**161,775,396**

(4) Credit ratings of debt instruments

The Group adopts a credit rating approach to manage the credit risk of the debt instruments portfolio. Debt instruments are rated with reference to major rating agencies generally recognised by the PBOC. The carrying amounts of debt instruments investments analysed by the rating agency designations as at the balance sheet date are as follows:

	The Group	
	As at 31 December 2018	As at 31 December 2017
Impaired items		
- C	275,437	300,000
- Unrated	3,157,283	1,852,293
Total of impaired items	**3,432,720**	**2,152,293**
Provision for impairment losses	(2,081,471)	(2,117,994)
Net amount	**1,351,249**	**34,299**
Overdue but not impaired items		
- Unrated	900,000	-
Provision for impairment losses	(122,900)	-
Net amount	**777,100**	-
Neither overdue nor impaired		
- AAA	226,914,172	170,383,700
- AA- to AA+	12,261,433	9,927,358
- A- to A+	11,656,757	8,832,178
- Lower than A	11,035,914	7,433,816
- Unrated	421,159,478	432,155,374
Sub-total	**683,027,754**	**628,732,426**
Provision for impairment losses	(5,645,994)	(6,138,582)
Net amount	**677,381,760**	**622,593,844**
Carrying amount	**679,510,109**	**622,628,143**

2. Market risk

Market risk is the risk of loss, in respect of the Group's on and off balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices. The Group's market risk mainly derives from assets and liabilities operating in the market and interest rate risk and foreign exchange rate risk of its products.

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The market risk management of the Group oversees the whole process of identifying, measuring, monitoring and controlling market risk. The Group established the risk management framework in accordance with the requirements of the CBRC. The Board and the Risk Management Committee are responsible for leading the management of market risk. The senior management is responsible for formulating, regularly reviewing and monitoring the policies, procedures and detailed rules of market risk management and the overall evaluation of the Group's market risk management. The Risk Management Department is responsible for formulating the policies, the management of preference of the market risk and the limitation of the risk and monitoring and controlling the market risk independently.

The Group is primarily exposed to structural interest rate risk arising from interest generating commercial banking assets and interest bearing commercial banking liabilities. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities. The Group manages this risk through measures such as the Value-at-risk analysis ("VaR"), interest rate gap analysis, sensitivity analysis, etc.

The Group's foreign exchange risks mainly comprises risks arising from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and foreign currency risk arising from the currency mismatch of loans and advances to customers and deposits from customers. The Group's major businesses are denominated in RMB, and the foreign currency exposure is not significant. The Group manages the foreign currency risk mainly by closely monitoring the limit of the currency exposures.

The Group is also exposed to market risk from its customer driven derivatives transactions and mitigates this risk by entering into back-to-back transactions with banks and other financial institutions. The Group determined that the market risk arising from stock prices for its investment portfolios is minimal.

The Group separately monitors the market risk of its trading portfolios and non-trading portfolios. The Group identifies, measures and manages the market risk by using various risk monitoring tools including the Value-at-risk ("VaR") analysis, duration analysis, gap analysis, position analysis, sensitivity analysis, scenarios analysis and stress testing. The Group has established a market risk limits system based mainly on position indicators, interest sensitivity and stop-losses indicators, and monitors the application of these risk limits. By undergoing inspecting procedures on new products and complex businesses, the Group ensures that market risk of new businesses be identified and assessed as early as possible.

(1) VaR analysis of trading portfolios

Trading portfolios include exchange rate, interest rate derivatives and precious metals as well as trading securities. The historical simulation model for the VaR analysis is a major tool used by the Group to measure and monitor the market risk of its trading portfolios.

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Group used a 99% level of confidence (therefore no more than 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR of interest rates, foreign exchange rates and commodity prices of trading portfolios. The holding period is one day.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

- A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used there is 1 percent probability that losses could exceed the VaR;

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and

- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The total VaR of the Group's trading portfolios during the years and as at the balance sheet date are summarised as below:

	The Group			
	As at 31 December	Average	Maximum	Minimum
2018	27,052	38,942	65,084	25,129
2017	46,730	39,256	50,413	16,942

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As a supplement to VaR analysis, stressing test is performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. The Group sets stress testing limits, continuously adjusts and enhances the scenarios for stress testing by taking into account financial market fluctuations in order to capture the potential impact of market price fluctuations and volatility on the trading book, enhancing the Group's market risk management capabilities.

(2) Interest rate risk exposure

Interest rate risk is the likelihood of a loss that may arise from adverse movements in the market interest rate. The Group predicts trends of interest rate by studying various macroeconomic indicators, and predicts future funding movements and trends within the Group by referring to the Group's funding costs, capital adequacy ratios, growth of loans and deposits and other factors, so as to assess the interest rate risk taking capacity of the Group.

The Group mainly manages interest rate risks through structuring and adjusting its asset portfolios. Asset portfolios aim at mitigating risks and improve profitability by diversification of assets.

The interest rate risk mainly represents risk arising from interest rate policy changes and the mismatch of interest-sensitive assets and liabilities. Interest rate risk management measures of the Group mainly include:

(i) Forecast interest rate trend – the Group closely reviews the interest rate policies to identify the interest rate risks in order to justify interest rate risk limits and the adjust the risk exposure;

(ii) Set up risk management indicators to manage investment transactions, which is followed by regular reassessment;

(iii) Adjust investment portfolio and financing structure in response to market expectations;

(iv) Establish RMB deposit and loan pricing authorisation system; and

(v) Promote assets and liabilities management and internal transfer pricing system and manage interest rate risk exposure by various tools on an integrated basis.

	The Group					
	As at 31 December 2018					
	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Financial assets						
Cash and deposits with central bank	2,260,057	142,845,718	-	-	-	145,105,775
Deposits and placements with banks and other financial institutions	459,399	55,409,560	52,933,898	21,631,925	-	130,434,782
Financial assets held under resale agreements	-	36,368,624	-	-	-	36,368,624
Loans and advances to customers (Note i)	-	518,516,730	226,277,025	68,180,175	5,386,266	818,360,196
Investments (Note ii)	179,551,853	131,852,766	140,649,855	304,763,146	102,244,342	859,061,962
Other financial assets	16,800,356	-	-	-	-	16,800,356
Total financial assets	**199,071,665**	**884,993,398**	**419,860,778**	**394,575,246**	**107,630,608**	**2,006,131,695**
Financial liabilities						
Borrowings from central bank	-	(17,500,000)	(85,442,000)	-	-	(102,942,000)
Deposits and placements from banks and other financial institutions	-	(326,522,920)	(110,781,568)	-	-	(437,304,488)
Financial liabilities at fair value through profit or loss	(7,168)	-	-	-	-	(7,168)
Financial assets sold under repurchase agreements	-	(59,422,701)	(1,728,557)	-	-	(61,151,258)
Deposits from customers	-	(623,607,813)	(235,759,241)	(177,622,551)	(5,500,000)	(1,042,489,605)
Debt securities issued	-	(119,047,319)	(51,704,107)	(6,131,368)	(12,492,736)	(189,375,530)
Other financial liabilities	(24,155,723)	-	-	-	-	(24,155,723)
Total financial liabilities	**(24,162,891)**	**(1,146,100,753)**	**(485,415,473)**	**(183,753,919)**	**(17,992,736)**	**(1,857,425,772)**
Total	**174,908,774**	**(261,107,355)**	**(65,554,695)**	**210,821,327**	**89,637,872**	**148,705,923**

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	The Group					
	As at 31 December 2017					
	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Financial assets						
Cash and deposits with central bank	2,828,064	133,235,581	-	-	-	136,063,645
Deposits and placements with banks and other financial institutions	1,260,144	59,852,539	73,878,075	975,787	-	135,966,545
Financial assets held under resale agreements	-	24,179,929	1,628,922	-	-	25,808,851
Loans and advances to customers (Note i)	-	471,531,387	125,796,278	44,637,255	1,226,404	643,191,324
Investments (Note ii)	210,575,161	121,074,901	115,627,958	255,356,483	130,568,801	833,203,304
Other financial assets	10,889,803	-	-	-	-	10,889,803
Total financial assets	**225,553,172**	**809,874,337**	**316,931,233**	**300,969,525**	**131,795,205**	**1,785,123,472**
Financial liabilities						
Borrowings from central bank	-	(22,035,000)	(59,570,000)	-	-	(81,605,000)
Deposits and placements from banks and other financial institutions	-	(280,403,378)	(100,051,979)	-	-	(380,455,357)
Financial assets sold under repurchase agreements	-	(73,857,988)	(4,715,181)	-	-	(78,573,169)
Deposits from customers	-	(614,546,199)	(202,529,843)	(106,509,282)	-	(923,585,324)
Debt securities issued	-	(145,122,253)	(7,841,175)	(2,695,184)	(12,489,466)	(168,148,078)
Other financial liabilities	(20,190,482)	-	-	(52,209)	-	(20,242,691)
Total financial liabilities	**(20,190,482)**	**(1,135,964,818)**	**(374,708,178)**	**(109,256,675)**	**(12,489,466)**	**(1,652,609,619)**
Total	**205,362,690**	**(326,090,481)**	**(57,776,945)**	**191,712,850**	**119,305,739**	**132,513,853**

(i) For loans and advances to customers, the category "Within three months" includes overdue amounts (net of provision for impairment losses) of RMB6,909 million as at 31 December 2018 (31 December 2017: RMB2,315 million). Overdue loans are loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more.

(ii) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment securities classified as receivables. These investments that are mature within three month include RMB1,777 million overdue (net of provision for impairment losses) as at 31 December 2018 (31 December 2017: RMB34 million).

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income and equity. The following table sets forth the effect on the Group's net interest income and equity from possible and reasonable interest rate fluctuations with an assumption that all other variables held constant. The effect on net interest income refers to the effect of certain interest rate changes on the net interest income generated by financial assets and liabilities that are held at the end of the year and whose interest rate are expected to reprice within one year. The effect on the equity refers to the effect of fair value changes arising from revaluation of fixed rate available for sale financial assets held at year end on equity as a result of changes in interest rates.

	The Group	
	As at 31 December 2018	As at 31 December 2017
Sensitivity of net interest income		
Change in interest rate (basis points)		
+100	(1,392,848)	(1,929,359)
- 100	1,392,848	1,929,359
Sensitivity of equity		
Change in interest rate (basis points)		
+100	(476,558)	(506,440)
- 100	494,983	520,428

This sensitivity analysis is based on a static interest rate risk profile of the assets and liabilities. The analysis measures only the impact of changes in interest rates within a year, as reflected by effect on annualised net interest income and equity from the repricing of the Group's assets and liabilities within a year. The analysis is based on the following assumptions:

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(i) changes in business after balance sheet date is not taken into account, the analysis is based on the static gap at the balance sheet date;

(ii) all assets and liabilities that reprice or are due within one year will reprice or are due at the beginning of the respective periods;

(iii) the interest rates of deposits with central bank and demand deposits from customers remain unchanged;

(iv) there is a parallel shift in the yield curve due to change in interest rates;

(v) there are no other changes to the assets or liabilities portfolio; and

(vi) impact from interest rate movement on customers' activities, market prices and off-balance sheet items are not considered.

(3) Foreign currency risk

The Group's business transactions are mainly denominated in RMB. Some transactions involve US dollars, HK dollars or Euros, as well as a few other currencies. The Group's exchange rate risk comprises risk arising from foreign currency exposures originated from daily treasury businesses and loans and advances to customers, balances with financial institutions, investments and deposits from customers held by the Group which are not denominated in RMB.

The exchange rate risk of the trading book includes the risks arising from foreign currency transactions on behalf of customers and the corresponding back-to-back transactions, as well as proprietary short-term foreign currency deals. The Group manages the exchange rate risk mainly by imposing limits on the transactions and sensitivity (including the exposure limit and stop loss limit). In addition, the Group evaluates the exchange rate risk of the trading book by conducting stress testing on a quarterly basis. Retail foreign currency businesses are operated on an automated trading system and the Group can monitor the exposures from retail foreign currency business on a real time basis. The Group's operating and risk management systems are able to measure and monitor currency position created by various types of transactions. Moreover, the Group manages its exchange rate risk through spot and forward foreign exchange transactions and matching foreign currency financial assets with liabilities in the same currency, and manages its foreign currency assets and liabilities portfolio and structured position using derivative instruments (mainly foreign exchange forward or swap transactions).

The Group's exchange rate exposures at balance sheet date are as follows:

	The Group			
	As at 31 December 2018			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Financial assets				
Cash and deposits with central bank	140,684,899	4,301,350	119,526	145,105,775
Deposits and placements with banks and other financial institutions	119,546,743	8,731,312	2,156,727	130,434,782
Financial assets held under resale agreements	36,368,624	-	-	36,368,624
Loans and advances to customers	745,768,308	61,797,937	10,793,951	818,360,196
Investments (Note i)	820,164,841	36,886,951	2,010,170	859,061,962
Other financial assets	15,536,037	1,089,491	174,828	16,800,356
Total financial assets	**1,878,069,452**	**112,807,041**	**15,255,202**	**2,006,131,695**
Financial liabilities				
Borrowings from central bank	(102,942,000)	-	-	(102,942,000)
Deposits and placements from banks and other financial institutions	(315,018,595)	(120,281,277)	(2,004,616)	(437,304,488)
Financial liabilities at fair value through profit or loss	-	(7,168)	-	(7,168)
Financial assets sold under repurchase agreements	(61,151,258)	-	-	(61,151,258)
Deposits from customers	(951,233,005)	(84,209,541)	(7,047,059)	(1,042,489,605)
Debt securities issued	(182,978,697)	(4,801,289)	(1,595,544)	(189,375,530)
Other financial liabilities	(21,894,231)	(2,044,872)	(216,620)	(24,155,723)
Total financial liabilities	**(1,635,217,786)**	**(211,344,147)**	**(10,863,839)**	**(1,857,425,772)**
Net position	**242,851,666**	**(98,537,106)**	**4,391,363**	**148,705,923**
Credit commitments	**141,069,325**	**34,122,146**	**9,460,493**	**184,651,964**
Net notional amount of derivative financial instruments	**(104,570,532)**	**107,688,584**	**(1,887,098)**	**1,230,954**

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	The Group			
	As at 31 December 2017			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Financial assets				
Cash and deposits with central bank	132,600,962	3,196,284	266,399	136,063,645
Deposits and placements with banks and other financial institutions	125,799,246	8,464,290	1,703,009	135,966,545
Financial assets held under resale agreements	25,808,851	-	-	25,808,851
Loans and advances to customers	577,318,773	55,514,985	10,357,566	643,191,324
Investments (Note i)	801,261,333	31,290,520	651,451	833,203,304
Other financial assets	10,356,819	476,738	56,246	10,889,803
Total financial assets	**1,673,145,984**	**98,942,817**	**13,034,671**	**1,785,123,472**
Financial liabilities				
Borrowings from central bank	(81,605,000)	-	-	(81,605,000)
Deposits and placements from banks and other financial institutions	(263,256,413)	(116,100,545)	(1,098,399)	(380,455,357)
Financial assets sold under repurchase agreements	(78,573,169)	-	-	(78,573,169)
Deposits from customers	(850,707,318)	(69,269,639)	(3,608,367)	(923,585,324)
Debt securities issued	(165,625,190)	(2,522,888)	-	(168,148,078)
Other financial liabilities	(18,570,651)	(1,622,796)	(49,244)	(20,242,691)
Total financial liabilities	**(1,458,337,741)**	**(189,515,868)**	**(4,756,010)**	**(1,652,609,619)**
Net position	**214,808,243**	**(90,573,051)**	**8,278,661**	**132,513,853**
Credit commitments	**125,952,995**	**26,514,025**	**6,496,379**	**158,963,399**
Net notional amount of derivative financial instruments	**(97,838,201)**	**99,983,297**	**(6,236,898)**	**(4,091,802)**

(i) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment securities classified as receivables.

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit and equity. The following table sets forth the effect on the Group's net profit and equity from possible foreign exchange rate fluctuations with an assumption that all other variables held constant.

	The Group	
	As at 31 December 2018	As at 31 December 2017
Sensitivity of net profit and equity		
Change in foreign currency exchange rate		
Appreciation against RMB by 100 bps	12,707	13,196
Depreciation against RMB by 100 bps	(12,707)	(13,196)

The sensitivity analysis is based on the following assumptions:

(i) changes in business after balance sheet date is not taken into account, the analysis is based on the static gap at the balance sheet date;

(ii) the foreign currency sensitivity is the gain or loss recognised as a result of a 100-basis point fluctuation in foreign currency exchange rates against RMBon balance sheet date.(middle price);

(iii) the fluctuation of exchange rates by 100 basis points is based on the assumption of exchange rates movement over the next 12 months;

(iv) due to the immaterial proportion of the Group's total assets and liabilities denominated in foreign currencies other than US dollars, when calculating the effect on net profit and equity, other foreign currencies are converted into US dollars for this sensitivity analysis purpose;

(v) when calculating the foreign exchange exposures, exposures from foreign currency spot, forward and swap transactions are included;

(vi) other variables (including interest rates) remain unchanged; and

(vii) impact from foreign exchange rate change on customers' activities and market prices are not considered.

The above sensitivity analysis is based on the static structure of the assets and liabilities in respect of foreign exchange risk. It has not taken into account the potential efforts from the Group and the Bank to mitigate the negative effects on net profit and equity from foreign currency positions. Therefore, the estimation of the above may be different with the actual situation.

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3. Liquidity risk

Liquidity risk is the risk that the Group fail to meet the demands associated with its payables due, new loans and reasonable financing activities, or encounter difficulties in meeting these demands with reasonable costs.

The Group adopts a top-down and hierarchical liquidity management approach. At the Head Office level, liquidity is managed by the Assets and Liabilities Management Committee, which is responsible for formulation of liquidity policies and supervision of the liquidity risk ratio on a monthly basis. The Planning and Finance Department monitors liquidity in accordance with the specified liquidity risk indicators determined by the Assets and Liabilities Management Committee on a monthly basis. The Financial Markets Department is responsible for the execution of the day-to-day liquidity management activities through appropriate assets and liabilities matching and money market transactions to ensure the liquidity of the Group. The Risk Management Department takes the overall responsibility for liquidity risk management, including formulation of risk management strategies, policies, procedures and indicators.

The major liquidity management approaches of the Group include projecting the fund inflows and outflows according to the market trend to maintain an adequate funding base for the Bank; monitoring the liquidity ratio at the Head Office level and the branch level and the structure change of cash and other interest-generating assets to meet liquidity demands; establishing multi-layer liquidity safeguarding measures; enhancing the foundation of liability business, increasing the proportion of core deposits to maintain sound financing capability; establishing the liquidity risk early warning system and business continuity plan; performing periodic liquidity stress tests to identify indicators which may lead to any liquidity risk at the earliest stage.

(1) Maturity analysis

The following tables provide an analysis of the financial assets and liabilities of the Group based on the remaining periods to repayment on balance sheet date

	The Group							
	As at 31 December 2018							
	Indefinite	Overdue / repayable on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Financial assets:								
Cash and deposits with central bank	118,698,942	26,406,833	-	-	-	-	-	145,105,775
Deposits and placements with banks and other financial institutions	-	13,085,430	24,138,529	18,645,000	52,933,898	21,631,925	-	130,434,782
Financial assets held under resale agreements	-	-	22,405,116	13,963,508	-	-	-	36,368,624
Loans and advances to customers	-	6,908,528	75,807,030	70,213,365	295,964,383	264,107,953	105,358,937	818,360,196
Investments (Note i)	179,189,592	19,651,044	29,099,525	79,925,366	140,754,061	307,458,177	102,984,197	859,061,962
Other financial assets	-	5,828,145	1,557,963	2,286,021	5,509,730	1,233,606	384,891	16,800,356
Total financial assets	**297,888,534**	**71,879,980**	**153,008,163**	**185,033,260**	**495,162,072**	**594,431,661**	**208,728,025**	**2,006,131,695**
Financial liabilities:								
Borrowings from central bank	-	-	(15,500,000)	(2,000,000)	(85,442,000)	-	-	(102,942,000)
Deposits and placements from banks and other financial institutions	-	(85,193,916)	(170,694,431)	(70,634,573)	(110,506,388)	-	(275,180)	(437,304,488)
Financial liabilities at fair value through profit or loss	-	(7,168)	-	-	-	-	-	(7,168)
Financial assets sold under repurchase agreements	-	-	(52,550,312)	(6,872,389)	(1,728,557)	-	-	(61,151,258)
Deposits from customers	-	(416,284,545)	(97,313,369)	(110,009,899)	(235,759,241)	(177,622,551)	(5,500,000)	(1,042,489,605)
Debt securities issued	-	-	(63,503,357)	(55,543,962)	(51,704,107)	(6,131,368)	(12,492,736)	(189,375,530)
Other financial liabilities	-	(10,976,887)	(2,651,339)	(2,384,702)	(5,864,246)	(2,202,724)	(75,825)	(24,155,723)
Total financial liabilities	**-**	**(512,462,516)**	**(402,212,808)**	**(247,445,525)**	**(491,004,539)**	**(185,956,643)**	**(18,343,741)**	**(1,857,425,772)**
Net position	**297,888,534**	**(440,582,536)**	**(249,204,645)**	**(62,412,265)**	**4,157,533**	**408,475,018**	**190,384,284**	**148,705,923**
Notional amount of derivative financial instruments	**-**	**-**	**269,173,375**	**165,325,492**	**733,742,751**	**498,937,701**	**1,800,000**	**1,668,979,319**

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	The Group							
	As at 31 December 2017							
	Indefinite	Overdue / repayable on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Financial assets:								
Cash and deposits with central bank	123,601,427	12,462,218	-	-	-	-	-	136,063,645
Deposits and placements with banks and other financial institutions	-	14,812,695	30,325,186	15,974,802	73,878,075	975,787	-	135,966,545
Financial assets held under resale agreements	-	-	23,695,961	483,968	1,628,922	-	-	25,808,851
Loans and advances to customers	-	2,314,696	85,209,140	59,224,503	200,357,951	220,560,645	75,524,389	643,191,324
Investments (Note i)	210,114,051	11,588,536	24,892,031	92,544,674	109,345,719	254,261,044	130,457,249	833,203,304
Other financial assets	-	2,714,378	1,385,088	2,087,728	3,806,643	823,541	72,425	10,889,803
Total financial assets	**333,715,478**	**43,892,523**	**165,507,406**	**170,315,675**	**389,017,310**	**476,621,017**	**206,054,063**	**1,785,123,472**
Financial liabilities:								
Borrowings from central bank	-	-	(15,000,000)	(7,035,000)	(59,570,000)	-	-	(81,605,000)
Deposits and placements from banks and other financial institutions	-	(73,307,831)	(160,861,248)	(46,234,299)	(99,950,567)	-	(101,412)	(380,455,357)
Financial assets sold under repurchase agreements	-	-	(60,032,811)	(13,825,177)	(4,715,181)	-	-	(78,573,169)
Deposits from customers	-	(393,791,203)	(104,210,729)	(116,544,267)	(202,529,843)	(106,509,282)	-	(923,585,324)
Debt securities issued	-	-	(88,506,653)	(56,615,600)	(7,841,175)	(2,695,184)	(12,489,466)	(168,148,078)
Other financial liabilities	-	(2,260,581)	(4,281,096)	(3,855,336)	(7,247,335)	(2,596,047)	(2,296)	(20,242,691)
Total financial liabilities	**-**	**(469,359,615)**	**(432,892,537)**	**(244,109,679)**	**(381,854,101)**	**(111,800,513)**	**(12,593,174)**	**(1,652,609,619)**
Net position	**333,715,478**	**(425,467,092)**	**(267,385,131)**	**(73,794,004)**	**7,163,209**	**364,820,504**	**193,460,889**	**132,513,853**
Notional amount of derivative financial instruments	**-**	**-**	**202,057,843**	**352,179,325**	**1,079,399,744**	**346,973,915**	**1,180,000**	**1,981,790,827**

(i) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment securities classified as receivables.

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(2) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the financial liabilities of the Group at the end of balance sheet date. The Group's actual cash flows on these instruments may vary significantly from this analysis.

	The Group								
	As at 31 December 2018								
	Carrying amount	Gross nominal inflow / (outflow)	Indefinite	Overdue / repayment on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Non-derivative financial liabilities									
Borrowings from central bank	(102,942,000)	(106,325,648)	-	-	(16,003,750)	(2,065,356)	(88,256,542)	-	-
Deposits and placements from banks and other financial institutions	(437,304,488)	(442,168,983)	-	(85,193,916)	(171,579,686)	(71,428,164)	(113,654,052)	(36,737)	(276,428)
Financial liabilities at fair value through profit or loss	(7,168)	(7,168)	-	(7,168)	-	-	-	-	-
Financial assets sold under repurchase agreements	(61,151,258)	(61,367,324)	-	-	(52,664,978)	(6,942,013)	(1,760,333)	-	-
Deposits from customers	(1,042,489,605)	(1,069,830,835)	-	(427,235,628)	(99,804,359)	(112,847,697)	(241,954,857)	(182,320,801)	(5,667,493)
Debt securities issued	(189,375,530)	(196,702,686)	-	-	(63,653,746)	(55,867,998)	(53,319,923)	(9,324,019)	(14,537,000)
Other financial liabilities	(5,942,956)	(5,942,956)	-	(5,909,476)	-	-	(33,480)	-	-
Total non-derivative financial liabilities	**(1,839,213,005)**	**(1,882,345,600)**	**-**	**(518,346,188)**	**(403,706,519)**	**(249,151,228)**	**(498,979,187)**	**(191,681,557)**	**(20,480,921)**
Derivative financial instruments									
settled on gross basis of which									
- Total inflow		417,313,965	-	-	183,061,085	60,276,122	166,483,384	7,493,374	-
- Total outflow		(415,935,936)	-	-	(182,674,199)	(60,226,437)	(165,797,301)	(7,237,999)	-
Derivative financial instruments settled on net basis		250,121	-	-	3,501	23,759	110,460	111,966	435
Total derivative financial instruments		**1,628,150**	**-**	**-**	**390,387**	**73,444**	**796,543**	**367,341**	**435**
Credit commitments		**184,651,964**	**-**	**39,773,286**	**8,954,631**	**20,604,014**	**37,848,299**	**65,258,606**	**12,213,128**

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	The Group								
	As at 31 December 2017								
	Carrying amount	Gross nominal inflow / (outflow)	Indefinite	Overdue / repayment on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Non-derivative financial liabilities									
Borrowings from central bank	(81,605,000)	(84,187,772)	-	-	(15,457,000)	(7,252,960)	(61,477,812)	-	-
Deposits and placements from banks and other financial institutions	(380,455,357)	(384,686,487)	-	(73,307,831)	(161,836,492)	(46,827,728)	(102,597,711)	-	(116,725)
Financial assets sold under repurchase agreements	(78,573,169)	(79,336,147)	-	-	(60,302,455)	(14,134,480)	(4,899,212)	-	-
Deposits from customers	(923,585,324)	(942,698,451)	-	(402,007,948)	(106,294,544)	(118,938,522)	(206,715,251)	(108,742,186)	-
Debt securities issued	(168,148,078)	(175,870,669)	-	-	(88,640,000)	(57,092,263)	(8,826,222)	(5,829,184)	(15,483,000)
Other financial liabilities	(2,312,790)	(2,312,790)	-	(2,260,581)	-	-	-	(52,209)	-
Total non-derivative financial liabilities	**(1,634,679,718)**	**(1,669,092,316)**	**-**	**(477,576,360)**	**(432,530,491)**	**(244,245,953)**	**(384,516,208)**	**(114,623,579)**	**(15,599,725)**
Derivative financial instruments									
settled on gross basis of which									
- Total inflow		384,545,945	-	-	86,575,535	75,694,926	212,622,934	9,652,550	-
- Total outflow		(388,013,107)	-	-	(87,386,408)	(76,397,182)	(214,792,543)	(9,436,974)	-
Derivative financial instruments settled on net basis		260,468	-	-	26,090	50,268	121,521	62,408	181
Total derivative financial instruments		**(3,206,694)**	**-**	**-**	**(784,783)**	**(651,988)**	**(2,048,088)**	**277,984**	**181**
Credit commitments		**158,963,399**	**-**	**38,295,734**	**9,134,585**	**20,452,755**	**44,594,861**	**37,454,074**	**9,031,390**

4. Operational risk

Operational risk refers to the risks resulting from inadequate or failed internal control procedures, from human or information system related factors and from external events.

The operational risk faces the Group primarily includes, among others, internal fraud, external fraud, damages to property, disruptions to operations or information technology systems and issues associated with transaction execution and settlement as well as business processes. Based on the "three lines of defense" operational risk management system, the Group uses management tools such as operational risk and control self-assessment (RCSA), key risk indicators of operational risk (KRI), and operational risk loss data collection (LDC), to identify, assess, measure, monitor, control / mitigate and report operational risks.

The Group uses flow analysis, based on the historical data and operational experience, to identify operational risks, possible areas with operational risk, possible risk factors and signals, and control important risk elements.

The Group has established a bottom-up operational risk reporting system, for timely reporting on significant operational risks with branches or departments. The operational risk reporting system can be used to collect loss data and identify loss distribution, to identify deficiencies in operational risk control, and to verify the results of RCSA and assess the quality of RCSA.

The Group also improves operational risk management by enhancing staff management. The Group provides various training to employees, including orientation training for new comers and ongoing operating compliance training for all employees, and conducts regular assessment. The Group's staff manual and internal policies involve provisions for avoiding financial losses and maintaining reputation. The Group has also developed mandatory rotation policies for certain key positions.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to each business unit. The operational risk management is supplemented by relevant guidelines formulated by the Group on the following areas:

- requirements for appropriate segregation of duties, including independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risk, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- effective risk mitigation measures, including insurance.

XIV. Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management. The group's capital management and distribution policies are reviewed regularly by the Board.

The Group commenced the computation of its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations promulgated by the CBRC. The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with Regulation Governing Capital of Commercial Banks (Provisional). For systemically important banks, CBRC requires minimum core tier one capital adequacy ratio, tier one capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, CBRC requires corresponding minimum ratios of 7.50%, 8.50% and 10.50%, respectively. The Group has complied in full with all its externally imposed capital requirements at 31 December 2018 and 31 December 2017.

Capital adequacy ratio management is the core of the capital management of the Group. The capital adequacy ratio reflects the Group's operations and risk management capabilities. The Group considers its strategic development plans, business expansion plans and risk variable trends when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio for maintaining a solid capital base and supporting business healthy development as well as meeting regulatory requirements continuously.

The capital replenishment will mainly be drawn from accumulation within the group. And the group enhances the capital strength, broadens the channels of capital supplement, optimizes the capital structure and improve the quality of capital through the rational use of various types of capital replenishment tools.

Capital allocation

The Group determines the allocation of its capital to businesses or activities with the objective of maximizing the return on risk-adjusted capital. The amount of capital allocated to each business or activity is primarily determined based on regulatory requirements. However, in certain cases, regulatory requirements may not accurately address the varying degree of risks associated with different activities. In such cases, capital may be adjusted to an appropriate level to reflect the risk profiles.

The Group calculates the following core tier one capital adequacy ratio, tier one capital adequacy ratio and capital adequacy ratio in accordance with Regulation Governing Capital of Commercial Banks (Provisional) and relevant requirements promulgated by the CBRC as below:

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	As at 31 December 2018	As at 31 December 2017
Core tier one capital adequacy ratio	**9.83%**	10.69%
Tier one capital adequacy ratio	**11.22%**	12.37%
Capital adequacy ratio	**13.00%**	14.33%
Capital composition		
Core tier one capital:		
- Paid-in capital	10,928,099	7,805,785
- Qualified portion of capital	25,717,981	27,833,570
- Surplus reserve	30,969,554	26,435,300
- General reserve	25,804,758	25,780,256
- Retained earnings	47,658,150	39,125,759
- Qualified portion of non-controlling interests	89,082	85,511
- Others (Note i)	240,837	47,296
Total core tier one capital	**141,408,461**	**127,113,477**
Core tier one capital deduction:		
- Goodwill (net of related deferred tax liabilities)	(1,579)	(1,579)
- Other intangible assets other than land use right (net of related deferred tax liability)	(346,312)	(314,321)
- Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(6,528)	(16,471)
Net core tier one capital	**141,054,042**	**126,781,106**
Other tier one capital		
- Other tier one capital instruments and related premium	19,957,170	19,957,170
- Qualified portion of non-controlling interests	11,878	11,401
Net tier one capital	161,023,090	146,749,677
Tier two capital:		
- Tier two capital instruments and related premium	9,000,000	10,000,000
- Qualified portion of surplus provision for loan impairment	16,632,336	13,186,788
- Qualified portion of non-controlling interests	23,755	22,803
Net capital	**186,679,181**	**169,959,268**
Total risk-weighted assets	**1,435,652,196**	**1,185,925,725**

(i) Others are the translation reserve for the Group in accordance with Administrative Measures on Capital of Commercial Banks (For Trial Implementation) issued by the CBRC.

XV. Fair value of financial instruments

1. Fair value measurement

(1) Fair value hierarchy

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Group's assets and liabilities which are measured at fair value at each balance sheet date on a recurring basis. As at 31 December 2018, the Group's assets and liabilities which are not measured at fair value on a recurring basis were not significant. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels are defined as follows:

Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

Level 2 inputs: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities;

Level 3 inputs: inputs that are unobservable for underlying assets or liabilities.

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The table below analyses financial instruments, measured at fair value at the end of the balance sheet date, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Recurring fair value measurement	The Group			
	As at 31 December 2018			
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
Assets				
Financial assets at fair value through profit or loss				
- Debt instruments	-	17,492,097	-	17,492,097
- Equity instruments	357,248	5,013	-	362,261
-Debt instruments at fair value through profit or loss	-	-	20,003	20,003
Derivative financial assets	-	1,237,616	-	1,237,616
Available-for-sale financial assets				
- Debt instruments	-	47,715,246	174,874,683	222,589,929
- Equity instruments	133,517,002	44,845,149	727,853	179,090,004
Total assets measured at fair value on a recurring basis	**133,874,250**	**111,295,121**	**175,622,539**	**420,791,910**
Liabilities				
Financial liabilities at fair value through profit or loss	-	(829,640)	-	(829,640)
Derivative financial liabilities	(7,168)	-	-	(7,168)
Total liabilities measured at fair value on a recurring basis	**(7,168)**	**(829,640)**	**-**	**(836,808)**

Recurring fair value measurement	The Group			
	As at 31 December 2017			
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
Assets				
Financial assets at fair value through profit or loss				
- Debt instruments	-	11,083,337	-	11,083,337
- Equity instruments	460,617	493	-	461,110
-Debt instruments at fair value through profit or loss	-	9,790	-	9,790
Derivative financial assets	-	839,088	-	839,088
Available-for-sale financial assets				
- Debt instruments	-	50,862,334	159,708,428	210,570,762
- Equity instruments	170,404,583	39,129,678	485,463	210,019,724
Total assets measured at fair value on a recurring basis	**170,865,200**	**101,924,720**	**160,193,891**	**432,983,811**
Liabilities				
Derivative financial liabilities	-	(1,359,342)	-	(1,359,342)
Total liabilities measured at fair value on a recurring basis	**-**	**(1,359,342)**	**-**	**(1,359,342)**

(2) Level 1 fair value measurement

If there is a reliable active market quote (such as an authorised stock exchange or active open-ended fund manager), the closing price or redemption price of the last trading day prior to the balance sheet date is used as fair value.

(3) Level 2 fair value measurement

Debt instruments included in financial assets at fair value through profit or loss and Bonds, negotiable certificate of deposits and part of asset-backed securities included in available-for-sale financial assets are determined based on the quotes provided by the valuation system of securities clearing institutions. Observable inputs that reflect market conditions are used by quotation institutions when preparing the quotation.

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Equity investment included in financial assets at fair value through profit or loss is mainly stocks. The value of stocks which doesn't have active fair value can refer to the recent market price. The measure method can adopt the valuation technique which all significant valuation parameters are observed using market information.

Debt instruments included in financial assets at fair value through profit or loss are credit-linked notes. The fair value of these debt instruments is measured by the discounted expected cash flow in the future periods, and all significant valuation parameters involved are from observable market information.

The fair value of foreign exchange forwards and swaps, currency interest rate swaps, interest rate swaps, and commodity forward and swap included in the derivative financial instruments is determined by discounting the expected receivable and payable of future contracts and calculating the net present value of the contracts. The discount rate used is the market rate curve of respective currency. System quotations provided by exchanges relevant markets are used for exchange rates and commodity prices. Observable inputs that reflect market conditions are used by quotation institutions when preparing the quotation.

The Black-Scholes option pricing model is used to determine the fair value of foreign exchange options. Interest rate consists with market interest rate curve for the corresponding currency; exchange rates and volatility consist with quotations of related foreign exchange trading system. Observable inputs reflecting market conditions are used by related quotation agencies to offer a quote.

Equity investments included in the available for sale financial assets are mainly assets management plans, whose fair value is determined based on the adjusted fair value of financial assets or liabilities held by relevant structured subject. When there is no current quotation for the financial assets or liabilities, their fair value should be determined based on the adjusted market quotations for recent transactions. The valuation is based on a technique for which all significant inputs are observable market data.

(4) Level 3 fair value measurement

The Group has developed relevant procedures to determine the appropriate valuation techniques and inputs for level 3 fair value measurement on a recurring basis, and regularly reviews the appropriateness of the relevant procedures and determination of the fair value.

Quantitative information of level 3 fair value measurement is as follows:

	Fair value as at 31 December 2018	Valuation technique	Unobservable inputs	Range (weighted average)
Debt investment plan	25,109,386	Discounted cash price method	Risk-adjusted discount rate	[4.20%，6.91%]
Wealth management product	149,765,297	Discounted cash price method	Risk-adjusted discount rate	[4.30%，5.36%]
Unlisted available-for-sale equity instrument	517,826	Comparison of listed companies	Discounted liquidity	20%
Unlisted convertible corporate bonds	210,027	Discounted cash price method	Risk-adjusted discount rate	[8.43%，8.86%]
Unlisted RMB bills	20,003	Discounted cash price method	Risk-adjusted discount rate	6.5%

	Fair value as at 31 December 2017	Valuation technique	Unobservable inputs	Range (weighted average)
Debt investment plan	26,771,549	Discounted cash price method	Risk-adjusted discount rate	[4.30%，7.50%]
Wealth management product	132,936,879	Discounted cash price method	Risk-adjusted discount rate	[4.80%，5.62%]
Unlisted available-for-sale equity instrument	485,463	Comparison of listed companies	Discounted liquidity	20%

The group uses the valuation technique which include unobserved market data for part of debt investment plan, wealth management product, unlisted convertible loans and unlisted RMB bills. The valuation technique for the above assets is discounted cash price method, of which the unobservable inputs include risk-adjusted discount rate, etc.

The Group uses the price-to-book ratio of comparable listed companies to determine the fair value of the unlisted available for sale equity instruments, and makes adjustments by discounting its liquidity. The liquidity discounts in the above models are unobservable inputs.

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As at 31 December 2018 and 31 December 2017, the impact of replacing existing unobservable assumptions with other reasonable assumptions on the fair value measurement result is not significant.

The above assumptions and methods provide a consistent basis for the Group to calculate the fair value of its assets and liabilities. Other entities, however, may use different assumptions and methods, and therefore the fair value disclosed by other financial institutions may not be entirely comparable.

Reconciliation of the opening and closing balance for assets of level 3 fair value on a recurring basis is as follows:

	The Group						
	2018						
	As at 1 January	Total gains or losses during the year (Note)		Additions and settlements		As at 31 December	For asset held and Liabilities assumed at end of year, unrealised gains or losses during the year recognised in profit or loss
		Recognised in profit or loss	Recognised in Other comprehensive income	Additions	Settlement		
Assets							
Financial assets at fair value through profit or loss							
- Debt instruments designated at fair value through profit or loss	-	3	-	20,000	-	20,003	3
Available-for-sale financial assets							
- Investment in debt instruments	159,708,428	5,572,258	-	238,550,000	(228,956,003)	174,874,683	(282,374)
- Investment in equity instruments	485,463	87,968	(55,605)	210,027	-	727,853	87,968
Total	**160,193,891**	**5,660,229**	**(55,605)**	**238,780,027**	**(228,956,003)**	**175,622,539**	**(194,403)**

	The Group						
	2017						
	As at 1 January	Total gains or losses during the year (Note)		Additions and settlements		As at 31 December	For asset held and Liabilities assumed at end of year, unrealised gains or losses during the year recognised in profit or loss
		Recognised in profit or loss	Recognised in Other comprehensive income	Additions	Settlement		
Assets							
Available-for-sale financial assets							
- Investment in debt instruments	210,382,027	3,693,241	(37,430)	138,392,378	(192,721,788)	159,708,428	72,831
- Investment in equity instruments	19,091,027	356,303	133,685	-	(19,095,552)	485,463	(83,648)
Total	**229,473,054**	**4,049,544**	**96,255**	**138,392,378**	**(211,817,340)**	**160,193,891**	**(10,817)**

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Note: Details of the above gains or losses charged to profit or loss or other comprehensive income recognised by the Group at 31 December 2018 and at 31 December 2017 are as follows:

	2018	
	Item	Amount
Realised gains or losses recognised in profit or loss during the year	Interest income	5,854,632
Unrealised gains or losses recognised in profit or loss during the year	Financial assets at fair value through profit or loss Gain / (loss) on changes in fair value	3
	Impairment losses	(194,406)
Total		**(194,403)**
Gains or losses recognised in other comprehensive income	Gain / (loss) on changes in fair value of available-for-sale financial assets	(55,605)

	2017	
	Item	Amount
Realised gains or losses recognised in profit or loss during the year	Interest income	3,477,853
	Investment income	582,508
Total		**4,060,361**
Unrealised gains or losses recognised in profit or loss during the year	Impairment losses	(10,817)
Gains or losses recognised in other comprehensive income	Gain / (loss) on changes in fair value of available-for-sale financial assets	96,225

Analysis of level 3 fair value measurement items on a recurring basis and sensitivity of unobservable inputs is as follows:

The fair value of some of the group's debt investment plans, wealth management products,unlisted convertible loans and unlisted RMB bills is determined by discounting related expected cash flow of mentioned assets through the risk adjusted discount rate. The discount rate used has been adjusted according to counterparty credit risk. There is a negative correlation between fair value measurement and risk adjusted discount rate.

The Group uses the price-to-book ratio of comparable listed companies to determine the fair value of the unlisted available for sale equity instruments, and makes adjustments by discounting its liquidity discount. Fair value measurement and liquidity are negatively correlated. As at 31 December 2018, when all other variables remain constant, an increase or decrease of 5% in liquidity discount will result in an decrease or increase of RMB24.34 million in the Group's other comprehensive income (31 December 2017: decrease or increase of RMB27.03 million).

2. Change of items measured at fair value between different levels

During the Relevant Periods, the Group's assets and liabilities measured at fair value have not been changed significantly between different levels.

3. Change of valuation techniques and the reasons

During the Relevant Periods, valuation techniques used by the Group for fair value measurement were not changed significantly.

4. Fair value of financial assets and liabilities not measured at fair value

In addition to the following items, there was no significant difference between the carrying amount and the fair value of the Group's other financial assets and liabilities as at 31 December 2018 and 31 December 2017.

	As at 31 December 2018			
	Level 2	Level 3	Fair value	Carrying amount
Financial assets				
Held-to-maturity investment	311,928,482	-	311,928,482	310,643,240
Investment securities classified as receivables	8,006,481	120,656,902	128,663,383	128,764,840
Total	**319,934,963**	**120,656,902**	**440,591,865**	**439,408,080**
Financial liabilities				
Debt securities issued	185,432,695	4,592,391	190,025,086	189,375,530

(Expressed in thousands of Renminbi,unless otherwise stated) Notes to the financial statements 198

	As at 31 December 2017			
	Level 2	Level 3	Fair value	Carrying amount
Financial assets				
Held-to-maturity investment	254,348,922	-	254,348,922	264,262,868
Investment securities classified as receivables	8,532,869	127,730,446	136,263,315	136,701,386
Total	**262,881,791**	**127,730,446**	**390,612,237**	**400,964,254**
Financial liabilities				
Debt securities issued	164,265,862	2,522,889	166,788,751	168,148,078

For the above financial assets and liabilities not measured at fair value, the Group used the following methods to determine their fair value:

(1) Fair value of held-to-maturity financial assets, part of bond investment under investment securities classified as receivables, and financial liabilities of subordinated debt securities, tier 2 capital bonds, negotiable certificates of deposit and unlisted US dollar note instruments issued is based on the quotes provided by the valuation system of securities clearing institutions. Observable inputs that reflect market conditions are used by quotation institutions when preparing the quotation.

(2) There is no quotation for part of the bonds, asset management plans and structured notes and wealth management products of commercial banks in investment classified as receivables and certificate of deposit and unlisted US dollar note instruments included in the financial liabilities for debit securities issued on the active market. As a result, the Group estimates the fair value of these investment classified as receivables and these financial liabilities for debit securities issued by applying the discounted cash flow method. The discount rate used is the yield curve adjusted to the credit risk of the investment classified as receivables and the financial liabilities for debit securities issued at the end of reporting period.

XVI. Subsequent events

1. The Board of Directors approved on 19 April 2019 the profit appropriations for the year ended 31 December 2018. The proposal is subject to approval by the shareholder's general meeting.

2. Accounting standards issued but not yet effective and the potential impact:

As of the report date, the MOF issued the following revised accounting standards and interpretations. The Group has not implemented these standards as at 31 December 2018. The revised accounting standards would be relevant to the Group's financial statements in future periods.

- CAS No.14 - Revenue (Revised) ("new revenue standard")

- CAS No.22 - Financial Instruments: Recognition and Measurement (Revised), CAS No.23 - Transfer of Financial Assets (Revised), CAS No.24 - Hedge Accounting (Revised) and CAS No.37 - Presentation and Disclosures of Financial Instruments (Revised) (collectively "new financial instruments standards")

- CAS No.21 – Leases (Revised) ("new leases standard")

The Group plans to apply the new financial instruments standards from 1 January 2019. As required by MOF, except entities which are listed on both domestic and overseas markets or listed on overseas market, other listed entities on domestic markets preparing financial statements in accordance with IFRS or CAS shall adopt the new revenue standard and the new leases standard from 1 January 2020 and 1 January 2021 respectively.

The Group is assessing the expected impact of the new financial instrument standards on the first adoption period. As assessed by the Group by now, some aspects of the amendments to the new financial instruments standards may materially impact the financial statements. The assessments are based on the available information so far, hence the actual impact of the first adoption of the new standards may vary. The Group may identify further impacts and may change the accounting policy before the first adoption. The expected impact of the new financial instrument standards is as below.

The new financial instruments standard introduces new requirements for the classification and measurement of financial assets, including new requirements for the measurement of impairment of financial instruments. On the other hand, the new financial instrument standards retain the requirements for the classification and measurement of financial liabilities.

The new financial instruments standard require entities to make retroactive adjustments on the first adoption date and reflect the relevant adjustment in retained earnings or other comprehensive income in the first adoption reporting year.

The expected impact of the new financial instrument standard on the Group's financial statements is as follows:

(1) Classification and measurement

The new financial instruments standards classify financial assets into three principal categories: financial assets measured at amortised cost, financial assets held at fair value through other comprehensive income ("FVTOCI") and financial assets held at fair value through profit or loss ("FVTPL").

• The classification of debt investments is generally dependent on the business model in which a financial asset is managed and its contractual cash flow characteristics. If classified as FVTOCI, the interest income, impairment losses and gains / (losses) from disposals would be recognised as the profit or loss in current period.

• Regardless of the business model adopted, equity investments are generally classified as FVTPL. The only exception is when the security is not held for the transaction, and the entity irrevocably chooses to designate the security as FVTOCI. If an equity investment is designated as FVTOCI, only the dividend income arised by the investment can be recognised as profit or loss in current period. The gains / (losses) from disposals of the securities are reflected in other comprehensive income and can not be transferred to the profit or loss in current period.

The Group will classify financial assets held in accordance with the relevant requirements of the new financial instrument standards.

(2) Impairment

The new financial instruments standards replace the “incurred loss” model in the current financial instruments standards with the expected credit loss model (the “ECL model”). According to the ECL model, the company will not have to wait for the occurance of the events which may cause losses before the recognition of impairment losses. Instead, entities should confirm and measure the expected credit losses over the next 12 months or the entire lifetime based on the assets’ categories and the relevant facts and circumstances. The Group expects that the application of the ECL model will result in earlier recognition of credit losses.

The Group retrospectively adjusts the classification and measurement (including impairment) of financial instruments that have not been derecognised by the first adoption date of the new financial instrument standards in accordance with the convergence rules. The Group has not adjusted the comparative financial statement data. The difference between the carrying amounts of the financial instruments on the first adoption date under the new financial instrument standard and current financial instrument standard is included in the retained earnings or other comprehensive income in the first adoption reporting year.

XVII. Comparative figures

For the purpose of the presentation of these financial statements, the Group reclassified certain comparative figures.

(Expressed in thousands of Renminbi,unless otherwise stated) Notes to the financial statements 200

Bank of Shanghai Company Limited Supplementary Financial Information

1. Extraordinary gains and losses

Extraordinary gains and losses listed below are presented in accordance with Interpretive Pronouncement on the Preparation of Information Disclosure of Companies Issuing Public Shares No.1 – Extraordinary Gains and Losses:

	Note	2018	2017
Income from bank card overdue fee		91,043	71,318
Income from the compensation of litigation and breach of contract		62,509	6,035
Government grants		42,998	29,105
Income from clean up the suspense account		42	2,944
Net income from disposal of repossessed assets		-	613
Net (losses) / gains from disposal of fixed assets		(6,867)	9,292
Net losses from disposal of other assets		(8,958)	(87)
Donation expenditure		(12,412)	(15,206)
Other profit and loss		35,329	31,735
Net amount of extraordinary gains and losses	(1)	**203,684**	**135,749**
Tax effect	(2)	(55,742)	(38,473)
Total		**147,942**	**97,276**
Including:			
Net amount of extraordinary gains and losses affecting the net profit of the Bank's shareholders		146,833	92,990
Net amount of extraordinary gains and losses affecting the net profit of the Group's minority shareholders		1,109	4,286

Notes:

(1) The extraordinary gains and losses shall be accounted in other income, gains / (losses) from asset disposals and non-operating income or expenses.

Gains or losses on the financial assets which the Group entrusted to others for investing or management, reversal of loan loss provision from individually impairment test, possession and disposal of financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets and custodian fee income received as entrustee are not presented as extraordinary gains and losses because the above gains and losses are generated from normal operation.

(2) According to Regulations for the Implementation of the PRC Enterprise Income Tax Law and relevant regulations, net losses on disposal of fixed assets, non-public donations, compensations, liquidated damages and fines included in other prodit or loss cannot be deducted before taxation.

2. Earnings per share

In accordance with "Regulation on the Preparation of Information Disclosures by Companies Issuing Securities No.9 – Calculation and Disclosure of the Return on Net Assets and Earnings Per Share" (2010 revised) (The Rules for the Information Disclosure and Reporting No.9) issued by the CSRC and relevant accounting standards, the Group's earnings per share are calculated as follows:

	2018	2017
Weighted average number of ordinary shares outstanding (in thousand shares)	10,928,099	7,805,785
Weighted average number of ordinary shares outstanding after adjustment (in thousand shares)	10,928,099	10,928,099
Earnings per share before deducting extraordinary gains and losses		
- Net profit attributable to equity holders of the Bank	16,994,040	15,328,499
- Basic and diluted earnings per share attributable to equity holders of the Bank (in RMB)	1.56	1.40
Earnings per share after deducting extraordinary gains and losses		
- Net profit attributable to equity holders of the Bank after deducting extraordinary gains and losses	16,847,207	15,235,509
- Basic and diluted earnings per share attributable to equity holders of the Bank after deducting extraordinary gains and losses	1.54	1.39

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According to the resolution of the 2017 annual general meeting of shareholders approved by the Bank on June 22, 2018, the number of total shares issued before the implementation of the plan was 7,805,785,000. The Bank converted capital reserve to share capital on the basis of 0.4 shares for every share offered to all the registered shareholders on the record of date. Upon the completion of such conversion, the total share capital was increased to 10,928,099,000. According to the Rules for the Information Disclosure and Reporting No.9, the weighted average number of ordinary shares outstanding and earnings per share indicators during each comparative period were recalculated based on the number of shares after conversion.

There was no difference between basic and diluted earnings per share as there were no ordinary shares that are not dilutive during the year ended 31 December 2018 and 2017.

3. Return on net assets

In accordance with "The Rules for the Information Disclosure and Reporting No.9" issued by the CSRC and relevant accounting standards, the Group's return on net assets are calculated as follows:

	2018	2017
Net asset attributable to equity holders of the Bank	141,319,379	127,027,966
Weighted net asset attributable to equity holders of the Bank	134,172,935	121,398,595
Before deducting extraordinary gains and losses		
- Net profit attributable to equity holders of the Bank	16,994,040	15,328,499
- Weighted average of return on net assets	12.67%	12.63%
After deducting extraordinary gains and losses		
- Net profit attributable to equity holders of the Bank	16,847,207	15,235,509
- Weighted average of return on net assets	12.56%	12.55%

4. Leverage ratio

For more detailed information about leverage ratios, please refer to the column on investor relations-regulatory capital at the Bank's website: www.bosc.cn.

5. Regulatory capital

For more information about regulatory capital, please refer to the column on investor relations-regulatory capital at the Bank's website: www.bosc.cn.

APPENDIX – FORM OF STANDBY LETTER OF CREDIT

FORM OF IRREVOCABLE STANDBY LETTER OF CREDIT

FM: CHINA CONSTRUCTION BANK CORPORATION, HONG KONG BRANCH (CHINA CONSTRUCTION BANK CORPORATION IS A COMPANY INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY) (SWIFT: PCBCHKHH)

28/F, CCB TOWER, 3 CONNAUGHT ROAD CENTRAL, CENTRAL, HONG KONG

DATE: 10 September 2020

TO BENEFICIARY: CITICORP INTERNATIONAL LIMITED, 20/F, CITI TOWER, ONE BAY EAST, 83 HOI BUN ROAD, KWUN TONG, KOWLOON, HONG KONG (THE "**TRUSTEE**") IN ITS CAPACITY AS TRUSTEE FOR AND ON BEHALF OF THE HOLDERS (THE "**BONDHOLDERS**") OF THE U.S.$300,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF 1.250 PER CENT. CREDIT ENHANCED BONDS DUE 2023 (THE "**BONDS**"), TO BE ISSUED BY BOSCI (BVI) LIMITED (THE "**BOND ISSUER**") AND TO BE CONSTITUTED BY A TRUST DEED DATED 10 SEPTEMBER 2020 (THE "**BOND ISSUE DATE**") AMONG THE BOND ISSUER, BANK OF SHANGHAI CO., LTD., (THE "**COMPANY**") AND THE TRUSTEE, AS AMENDED OR SUPPLEMENTED FROM TIME TO TIME (THE "**TRUST DEED**").

DEAR SIRS,

RE: OUR IRREVOCABLE STANDBY LETTER OF CREDIT NO. [*NUMBER*]

AT THE REQUEST OF THE BOND ISSUER AND THE COMPANY (THE FORMER BEING OUR CUSTOMER), WE, CHINA CONSTRUCTION BANK CORPORATION, HONG KONG BRANCH (THE "**ISSUING BANK**", "**OUR**", "**US**" OR "**WE**"), HEREBY ISSUE OUR IRREVOCABLE STANDBY LETTER OF CREDIT NO. [*NUMBER*] IN YOUR FAVOUR, AND FOR THE ACCOUNT OF THE BOND ISSUER IN RESPECT OF AND IN CONNECTION WITH THE TERMS AND CONDITIONS OF THE BONDS APPENDED TO THE TRUST DEED (THE "**CONDITIONS**") AND THE TRUST DEED. THIS IRREVOCABLE STANDBY LETTER OF CREDIT IS MADE AVAILABLE BY US FOR PAYMENT AGAINST OUR RECEIPT OF A DEMAND SUBSTANTIALLY IN THE FORM SET OUT IN APPENDIX 1 (A "**DEMAND**") PRESENTED IN ACCORDANCE WITH THIS IRREVOCABLE STANDBY LETTER OF CREDIT STATING THAT (A) THE BOND ISSUER HAS FAILED TO COMPLY WITH CONDITION 1(D) OF THE BONDS IN RELATION TO PRE-FUNDING AN AMOUNT THAT IS REQUIRED TO BE PRE-FUNDED UNDER THE CONDITIONS AND/OR HAS FAILED TO PROVIDE THE REQUIRED CONFIRMATIONS (AS DEFINED IN THE CONDITIONS) IN ACCORDANCE WITH CONDITION 1(D) OF THE BONDS OR (B) AN EVENT OF DEFAULT (AS DEFINED IN CONDITION 8 OF THE BONDS) HAS OCCURRED AND THE BENEFICIARY, AS TRUSTEE FOR THE BONDS, HAS GIVEN NOTICE TO THE BOND ISSUER THAT THE BONDS ARE IMMEDIATELY DUE AND PAYABLE IN ACCORDANCE WITH CONDITION 8 OF THE BONDS.

SUBJECT TO THE TERMS OF THIS IRREVOCABLE STANDBY LETTER OF CREDIT, WE UNCONDITIONALLY AND IRREVOCABLY UNDERTAKE TO YOU THAT, ON AND AFTER THE BOND ISSUE DATE AND FOLLOWING RECEIPT BY US OF A DEMAND BY 11:00 A.M. (HONG KONG TIME) ON A BUSINESS DAY, WE SHALL BY 11:00 A.M. (HONG KONG TIME) ON THE FOURTH BUSINESS DAY (OR, IF A DEMAND IS RECEIVED AFTER 11:00 A.M. (HONG KONG TIME) ON A BUSINESS DAY, BY 11:00 A.M. (HONG KONG TIME) ON THE FIFTH BUSINESS DAY) AFTER SUCH BUSINESS DAY PAY TO, OR TO THE ORDER OF, THE BENEFICIARY THE AMOUNT IN U.S. DOLLARS SPECIFIED IN THE DEMAND TO THE ACCOUNT SPECIFIED IN

THE DEMAND. "**BUSINESS DAY**" MEANS A DAY, OTHER THAN A SATURDAY, A SUNDAY OR A PUBLIC HOLIDAY, ON WHICH BANKS ARE OPEN FOR BUSINESS IN HONG KONG, SHENZHEN AND NEW YORK CITY.

SUBJECT TO THE TERMS OF THIS IRREVOCABLE STANDBY LETTER OF CREDIT, OUR OBLIGATION TO PAY YOU IS UNCONDITIONAL AND ABSOLUTE AND ANY DEMAND BY YOU UNDER THIS IRREVOCABLE STANDBY LETTER OF CREDIT SHALL BE HONOURED WITHOUT ANY FURTHER ENQUIRY AS TO YOUR RIGHTS TO MAKE SUCH DEMAND.

OUR AGGREGATE LIABILITY UNDER THIS IRREVOCABLE STANDBY LETTER OF CREDIT SHALL BE EXPRESSED AND PAYABLE IN U.S. DOLLARS AND SHALL NOT IN ANY CIRCUMSTANCES EXCEED U.S.$306,000,000 (THE "**MAXIMUM LIMIT**"), AN AMOUNT REPRESENTING THE AGGREGATE PRINCIPAL AMOUNT OF U.S.$300,000,000 OF THE BONDS PLUS INTEREST PAYABLE FOR ONE INTEREST PERIOD IN ACCORDANCE WITH THE CONDITIONS PLUS ANY FEES, EXPENSES AND ALL OTHER AMOUNTS PAYABLE BY THE BOND ISSUER IN CONNECTION WITH THE BONDS, THE TRUST DEED AND THE AGENCY AGREEMENT (AS DEFINED IN THE CONDITIONS).

THIS IRREVOCABLE STANDBY LETTER OF CREDIT TAKES EFFECT FROM THE DATE HEREOF AND SHALL REMAIN VALID AND IN FULL FORCE UNTIL 5:00 P.M. (HONG KONG TIME) ON 10 OCTOBER 2023 (THE "**EXPIRY DATE**") AND SHALL EXPIRE AT THE COUNTERS OF THE ISSUING BANK. THIS IRREVOCABLE STANDBY LETTER OF CREDIT WILL BECOME NULL AND VOID FOLLOWING SUCH EXPIRY WHETHER THE ORIGINAL STANDBY LETTER OF CREDIT HAS BEEN RETURNED TO US OR NOT.

PAYMENT WILL BE EFFECTED AFTER OUR RECEIPT OF A DEMAND PRESENTED IN ACCORDANCE WITH THIS IRREVOCABLE STANDBY LETTER OF CREDIT, WHICH IS PRESENTED ON OR AFTER THE BOND ISSUE DATE AND ON OR BEFORE 5:00 P.M. (HONG KONG TIME) ON THE EXPIRY DATE.

ANY DEMAND UNDER THIS IRREVOCABLE STANDBY LETTER OF CREDIT IS TO BE PRESENTED TO US BY WAY OF AN AUTHENTICATED SWIFT PRESENTED BY OR ON BEHALF OF THE BENEFICIARY TO US (SWIFT: PCBCHKHH) WITHOUT THE NEED TO PHYSICALLY PRESENT AN ORIGINAL OF THAT DEMAND AT OUR COUNTER; *PROVIDED* THAT IN THE EVENT THAT THE SWIFT SYSTEM IS NOT AVAILABLE FOR ANY REASON, THE BENEFICIARY MAY INSTEAD ARRANGE FOR A DEMAND TO BE PHYSICALLY PRESENTED AT OUR COUNTER AT OUR ADDRESS 18/F., CCB CENTRE, 18 WANG CHIU ROAD, KOWLOON BAY, KOWLOON, HONG KONG (ATTN: TRADE FINANCE DEPARTMENT) DURING OUR NORMAL BRANCH OPENING HOURS ON OR AFTER THE BOND ISSUE DATE AND ON OR BEFORE THE EXPIRY DATE AND SUCH DEMAND SHALL BE SIGNED BY THE BENEFICIARY AND ACCOMPANIED BY A COPY OF A LIST OF AUTHORISED SIGNATORIES OF THE BENEFICIARY, TOGETHER WITH A STATEMENT THAT THE LIST OF AUTHORISED SIGNATORIES PROVIDED IS VALID AND EFFECTIVE.

ONLY ONE DRAWING UNDER THIS IRREVOCABLE STANDBY LETTER OF CREDIT IS PERMITTED.

ALL CHARGES ARE FOR THE ACCOUNT OF THE BOND ISSUER AND, FOR THE AVOIDANCE OF DOUBT, ARE NOT FOR THE ACCOUNT OF THE BENEFICIARY.

SHOULD ANY DEDUCTION OR WITHHOLDING ON ACCOUNT OF TAX, SET-OFF OR OTHERWISE BE REQUIRED, NOTWITHSTANDING THE MAXIMUM LIMIT, ALL PAYMENTS UNDER THIS IRREVOCABLE STANDBY LETTER OF CREDIT SHALL BE MADE IN U.S. DOLLARS AND FOR VALUE ON THE DATE SPECIFIED IN THE DEMAND IN IMMEDIATELY AVAILABLE FUNDS WITHOUT ANY SUCH DEDUCTION OR WITHHOLDING ON ACCOUNT OF

TAX, SET-OFF OR OTHERWISE. IN THE EVENT THAT ANY DEDUCTION OR WITHHOLDING IS REQUIRED BY LAW, THE ISSUING BANK SHALL PAY SUCH ADDITIONAL AMOUNTS AS WILL RESULT IN RECEIPT BY THE BENEFICIARY OF SUCH AMOUNTS AS WOULD HAVE BEEN RECEIVED BY IT HAD NO SUCH DEDUCTION OR WITHHOLDING BEEN REQUIRED.

THE BENEFICIARY'S RIGHTS UNDER THIS IRREVOCABLE STANDBY LETTER OF CREDIT MAY BE TRANSFERRED OR RE-TRANSFERRED IN WHOLE OR IN PART TO ANY ADDITIONAL OR REPLACEMENT TRUSTEE IN RESPECT OF THE BONDS SUBJECT ONLY TO AT LEAST 15 DAYS' NOTICE HAVING BEEN GIVEN TO US BY THE BENEFICIARY BY AUTHENTICATED SWIFT TO TRANSFER THIS IRREVOCABLE STANDBY LETTER OF CREDIT TO THE NEW BENEFICIARY, OR IN THE EVENT THAT THE SWIFT SYSTEM IS NOT AVAILABLE FOR ANY REASON BY LETTER ACCOMPANIED BY A COPY OF A LIST OF AUTHORISED SIGNATORIES OF THE BENEFICIARY, TOGETHER WITH A STATEMENT THAT THE LIST OF AUTHORISED SIGNATORIES PROVIDED IS VALID AND EFFECTIVE, TO US AT OUR ADDRESS (AS SPECIFIED ABOVE), AND ACKNOWLEDGED BY US AS THE ISSUING BANK. WE SHALL, ACTING REASONABLY, EFFECT THE TRANSFER.

WE MAY NOT TRANSFER OR NOVATE ANY OF OUR OBLIGATIONS UNDER THIS IRREVOCABLE STANDBY LETTER OF CREDIT.

NOTWITHSTANDING THE FOREGOING PROVISIONS OF THIS IRREVOCABLE STANDBY LETTER OF CREDIT, IN THE UNEXPECTED EVENT THAT WE ARE CLOSED ON THE EXPIRY DATE WHICH IS A BUSINESS DAY OR SWIFT IS UNAVAILABLE WHEN THE BENEFICIARY WISHES TO PRESENT A DEMAND HEREUNDER ON THE DAY AND AT THE TIME A DEMAND IS ABLE TO BE PRESENTED IN ACCORDANCE WITH THIS IRREVOCABLE STANDBY LETTER OF CREDIT, WE AGREE THAT THE BENEFICIARY CAN PRESENT THE DEMAND BY AUTHENTICATED SWIFT OR BY PRESENTING THE DEMAND IN PERSON AT OUR COUNTER AT 18/F., CCB CENTRE, 18 WANG CHIU ROAD, KOWLOON BAY, KOWLOON, HONG KONG (ATTN. TRADE FINANCE DEPARTMENT) FROM THE DATE OF OUR RESUMPTION OF OUR BUSINESS; *PROVIDED* THAT IF WE ARE CLOSED ON THE EXPIRY DATE WHICH IS A BUSINESS DAY, SUCH PRESENTATION SHALL BE MADE WITHIN THREE BUSINESS DAYS AFTER THE DATE OF THE RESUMPTION OF OUR BUSINESS.

ANY SETTLEMENT OR DISCHARGE OF OUR OBLIGATIONS UNDER THIS IRREVOCABLE STANDBY LETTER OF CREDIT SHALL BE CONDITIONAL UPON PAYMENT TO THE BENEFICIARY BY THE BOND ISSUER OR ANY OTHER PERSON ON BEHALF OF THE BOND ISSUER NOT BEING AVOIDED (BY VIRTUE OF ANY LAWS RELATING TO BANKRUPTCY, INSOLVENCY, LIQUIDATION OR SIMILAR LAWS OF GENERAL APPLICATION FOR THE TIME BEING IN FORCE). IN THE EVENT OF ANY SUCH PAYMENT BEING SO AVOIDED, THE BENEFICIARY SHALL, UPON WRITTEN NOTICE (SUBSTANTIALLY IN THE FORM OF APPENDIX 2) TO US AS ISSUING BANK INFORMING US OF SUCH AVOIDANCE OF PAYMENT, BE ENTITLED TO RECOVER THE AMOUNT BY WHICH SUCH PAYMENT IS SO AVOIDED FROM US SUBSEQUENTLY AS IF SUCH SETTLEMENT OR DISCHARGE HAD NOT OCCURRED.

EXCEPT TO THE EXTENT IT IS INCONSISTENT WITH THE EXPRESS TERMS OF THIS IRREVOCABLE STANDBY LETTER OF CREDIT, THIS IRREVOCABLE STANDBY LETTER OF CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (2007 REVISION), INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 600.

THIS IRREVOCABLE STANDBY LETTER OF CREDIT, AND ANY NON-CONTRACTUAL OBLIGATIONS ARISING OUT OF OR IN CONNECTION WITH IT, IS GOVERNED BY ENGLISH LAW. THE COURTS OF HONG KONG SHALL HAVE EXCLUSIVE JURISDICTION TO SETTLE ANY DISPUTE ARISING OUT OF OR IN CONNECTION WITH THIS IRREVOCABLE STANDBY LETTER OF CREDIT.

THIS CABLE IS AN OPERATIVE INSTRUMENT AND NO MAIL CONFIRMATION WILL FOLLOW.

APPENDIX 1

FORM OF DEMAND

SPECIMEN OF SWIFT MT799 TO BE SENT TO CHINA CONSTRUCTION BANK CORPORATION, HONG KONG BRANCH (PCBCHKHH) BY OR ON BEHALF OF CITICORP INTERNATIONAL LIMITED

FIELD 20:	OUR REF
FIELD 21:	SBLC NO
FIELD 79:	NARRATIVE

RE: DEMAND UNDER THE IRREVOCABLE STANDBY LETTER OF CREDIT NO. [NUMBER] IN RESPECT OF THE U.S.$300,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF 1.250 PER CENT. CREDIT ENHANCED BONDS DUE 2023 (THE "BONDS") ISSUED BY BOSCI (BVI) LIMITED (THE "BOND ISSUER")

THIS DEMAND IS MADE ON BEHALF OF CITICORP INTERNATIONAL LIMITED AS TRUSTEE FOR THE BONDS (THE "**BENEFICIARY**") UNDER YOUR IRREVOCABLE STANDBY LETTER OF CREDIT NO. [*NUMBER*] (THE "**IRREVOCABLE STANDBY LETTER OF CREDIT**"). TERMS USED HEREIN WHICH ARE NOT DEFINED SHALL HAVE THE MEANINGS GIVEN TO THEM IN THE IRREVOCABLE STANDBY LETTER OF CREDIT.

1 THIS DEMAND IS MADE IN CONNECTION WITH THE FOLLOWING:

[*DELETE INAPPROPRIATE PARAGRAPHS TO SHOW REASON FOR DEMAND*]

☐ THE BOND ISSUER HAS FAILED TO COMPLY WITH CONDITION 1(D) OF THE BONDS IN RELATION TO PRE-FUNDING AN AMOUNT THAT IS REQUIRED TO BE PRE-FUNDED UNDER THE CONDITIONS OF THE BONDS AND/OR HAS FAILED TO PROVIDE THE REQUIRED CONFIRMATIONS (AS DEFINED IN THE CONDITIONS OF THE BONDS) IN ACCORDANCE WITH CONDITION 1(D) OF THE BONDS.

☐ AN EVENT OF DEFAULT (AS DEFINED IN CONDITION 8 OF THE BONDS) HAS OCCURRED AND THE BENEFICIARY, AS TRUSTEE FOR THE BONDS, HAS GIVEN NOTICE TO THE BOND ISSUER THAT THE BONDS ARE IMMEDIATELY DUE AND PAYABLE IN ACCORDANCE WITH CONDITION 8 OF THE BONDS.

☐ PAYMENT MADE TO THE BENEFICIARY, AS TRUSTEE FOR THE BONDS, BY THE BOND ISSUER OR ANY OTHER PERSON ON BEHALF OF THE BOND ISSUER IS AVOIDED (BY VIRTUE OF ANY LAWS RELATING TO BANKRUPTCY, INSOLVENCY, LIQUIDATION OR SIMILAR LAWS OF GENERAL APPLICATION FOR THE TIME BEING IN FORCE).

2 WE HEREBY DEMAND YOU TO PAY U.S.$[*AMOUNT*] REPRESENTING:

[*DELETE INAPPROPRIATE PARAGRAPHS TO SHOW REASON FOR DEMAND*]

☐ (I) INTEREST ACCRUED UP TO THE DATE WHEN THE BONDS CEASE TO BEAR INTEREST PURSUANT TO THE CONDITIONS; (II) PRINCIPAL DUE IN RESPECT OF THE OUTSTANDING BONDS AND (III) THE FEES, EXPENSES AND ALL OTHER AMOUNTS PAYABLE BY THE BOND ISSUER IN CONNECTION WITH THE BONDS, THE TRUST DEED AND THE AGENCY AGREEMENT (AS DEFINED IN THE CONDITIONS OF THE BONDS).

☐ THE AMOUNT WHICH WAS AVOIDED (BY VIRTUE OF ANY LAWS RELATING TO BANKRUPTCY, INSOLVENCY, LIQUIDATION OR SIMILAR LAWS OF GENERAL APPLICATION FOR THE TIME BEING IN FORCE).

3 WE HEREBY REQUEST YOU TO PAY THE ABOVE AMOUNTS (IN AGGREGATE U.S.$[*AMOUNT*]) AFTER YOU RECEIVE THIS DEMAND IN ACCORDANCE WITH THE IRREVOCABLE STANDBY LETTER OF CREDIT.

4 THE PROCEEDS OF THE DRAWING UNDER THIS DEMAND ARE TO BE CREDITED TO THE FOLLOWING ACCOUNT:

[INSERT ACCOUNT DETAILS]

CITICORP INTERNATIONAL LIMITED AS BENEFICIARY

BY:

NAME:

TITLE:

APPENDIX 2

[TO BE PROVIDED BY THE TRUSTEE TO THE ISSUING BANK BY FACSIMILE]

FORM OF AVOIDANCE OF PAYMENT NOTICE

TO:

CHINA CONSTRUCTION BANK CORPORATION, HONG KONG BRANCH
(SWIFT: PCBCHKHH)
28/F, CCB TOWER, 3 CONNAUGHT ROAD CENTRAL, CENTRAL, HONG KONG
ATTN:

DATE:

RE: WRITTEN NOTICE UNDER THE IRREVOCABLE STANDBY LETTER OF CREDIT NO. [NUMBER] IN RESPECT OF THE U.S.$300,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF 1.250 PER CENT. CREDIT ENHANCED BONDS DUE 2023 (THE "BONDS") ISSUED BY BOSCI (BVI) LIMITED (THE "BOND ISSUER")

THIS NOTIFICATION IS MADE BY CITICORP INTERNATIONAL LIMITED, AS TRUSTEE OF THE BONDS (THE "**TRUSTEE**") UNDER YOUR IRREVOCABLE STANDBY LETTER OF CREDIT NO. [*NUMBER*] (THE "**IRREVOCABLE STANDBY LETTER OF CREDIT**"). CAPITALISED TERMS USED HEREIN BUT NOT DEFINED SHALL HAVE THE MEANINGS GIVEN TO THEM IN THE IRREVOCABLE STANDBY LETTER OF CREDIT.

THIS IS TO INFORM YOU THAT PAYMENT OF U.S.$[*AMOUNT*] TO US, AS TRUSTEE FOR THE BONDS, BY THE BOND ISSUER OR ANY OTHER PERSON ON BEHALF OF THE BOND ISSUER HAS BEEN AVOIDED (BY VIRTUE OF ANY LAWS RELATING TO BANKRUPTCY, INSOLVENCY, LIQUIDATION OR SIMILAR LAWS OF GENERAL APPLICATION FOR THE TIME BEING IN FORCE).

[*SPECIFY FURTHER DETAILS, IF ANY*].

ACCORDINGLY, A DEMAND NOTICE WILL FOLLOW IN ACCORDANCE WITH THE TERMS OF THE IRREVOCABLE STANDBY LETTER OF CREDIT.

FOR AND ON BEHALF OF

CITICORP INTERNATIONAL LIMITED
AS TRUSTEE

BY: ______________________
NAME:
TITLE:

ISSUER

BOSCI (BVI) Limited
Unit 8, 3/F., Qwomar Trading Complex
Blackburne Road, Port Purcell
Road Town, Tortola
British Virgin Islands VG1110

BANK

Bank of Shanghai Co., Ltd.
（上海銀行股份有限公司）
168, Yincheng Road Central
Pudong New District
Shanghai 200120
China

LC BANK

China Construction Bank Corporation, Hong Kong Branch
28/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

TRUSTEE

Citicorp International Limited
20/F, Citi Tower
One Bay East
83 Hoi Bun Road, Kwun Tong
Kowloon
Hong Kong

PRINCIPAL PAYING AGENT AND TRANSFER AGENT

Citibank, N.A., London Branch
c/o Citibank, N.A.,
Dublin Branch
1 North Wall Quay
Dublin 1
Ireland

REGISTRAR

Citibank, N.A., London Branch
c/o Citibank, N.A.,
Dublin Branch
1 North Wall Quay
Dublin 1
Ireland

PRE-FUNDING ACCOUNT BANK AND LC PROCEEDS ACCOUNT BANK

Citibank, N.A., Hong Kong Branch
10/F, Citi Tower
One Bay East
83 Hoi Bun Road, Kwun Tong
Kowloon
Hong Kong

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As to PRC law

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As to BVI law

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