

# Financial Management Assessment Report

People's Republic of China: Bank of Xingtai Green  
Finance Development Project

## FINANCIAL MANAGEMENT ASSESSMENT

### A. EXECUTIVE SUMMARY

1. A financial management assessment (FMA) was conducted on the Bank of Xingtai in accordance with the Asian Development Bank (ADB) *Financial Management Technical Guidance Note (2015)* and the ADB *Financial Due Diligence for Financial Intermediaries (2018)*.<sup>1</sup> This FMA is also based on (i) reviews of the country system of the People's Republic of China (the PRC) through the updated Country Governance Risk Assessment (CGRA); (ii) the Bank of Xingtai Annual Reports, available public information, and internal documents; (iii) interviews with the Bank of Xingtai staff, (iv) questionnaire to the public FMA (Appendix 1); and (v) other relevant documentation including integrity and anti-money laundering due diligence. The operational impact from the ongoing coronavirus disease (COVID-19) outbreak is also incorporated.

2. **Financial management.** The Bank of Xingtai's financial management in terms of planning, directing, monitoring, organizing, and controlling of the institutional resources is satisfactory. The systems of financial accounting, assets (loan books and nonperforming assets) management, credit management, liquidity and treasury management, financial reporting, internal controls, and internal and external audit are adequate for its current business operations. The financial reporting and monitoring follow the regulatory requirements and are done on regular and timely basis. The Bank of Xingtai's core banking system has been upgraded in December 2019 to improve, among others, financial and risk management efficiency. However, since the Bank of Xingtai's business operations are confined in the Hebei Province, it does not have either a national or international banking scope. The Bank of Xingtai has not implemented international development assistance projects from ADB and the World Bank, and may have initial difficulties to become proficient with such reporting requirements as project financial management procedures, project monitoring and review requirements, and audit requirements. Currently, it also does not have a full-fledged foreign currency operation. It is concluded that the overall pre-mitigation financial management and control risks are moderate. The Bank of Xingtai has agreed to implement an action plan for a few key financial management risks that have been identified in this Assessment. The capacity development component, combined with any internal training program, will help strengthen its overall financial management capacity.

3. **Financial analysis.** Due diligence on the project financial viability was conducted following the relevant provisions in the ADB's Financial Management Technical Guidance Notes: (i) *Project Financial Reporting and Auditing (2015)*;<sup>2</sup> (ii) *Financial Due Diligence for Financial Intermediaries (2018)* (footnote 1); and/or (iii) *Financial Analysis and Evaluation (2019)*.<sup>3</sup> More specifically, following ADB *Financial Analysis and Evaluation Technical Guidance Note (2019)* (page 32), the Bank of Xingtai is assessed for its capacity to expand credit to the target groups, operate on a continuously basis, and comply with prudential norms. This is determined based on the financial intermediary's "CAMELS" rating model.<sup>4</sup> For the Bank of Xingtai, these indicators are satisfactory from FY2015–2019 (see Economic and Financial Analysis for details).<sup>5</sup>

<sup>1</sup> ADB. 2015. *Financial Management Technical Guidance Note*. Manila. and ADB. 2018. *Financial Due Diligence for Financial Intermediaries*. Manila.

<sup>2</sup> ADB. 2015. *Project Financial Reporting and Auditing*. Manila.

<sup>3</sup> ADB. 2019. *Financial Analysis and Evaluation Technical Guidance Note*. Manila.

<sup>4</sup> CAMELS rating model: capital adequacy, asset quality, management capacity, earning, liquidity, and sensitivity to market risk.

<sup>5</sup> Financial Analysis and Economic Analysis (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President to the Board of Directors).



## B. PROJECT DESCRIPTION

4. The proposed project will catalyze and demonstrate the use of green finance in Hebei province, one of the most polluted industrial regions in the PRC. The Asian Development Bank (ADB) funds will be provided to the Bank of Xingtai, a regional city commercial bank in Hebei,<sup>6</sup> to finance subprojects that meet national and international green finance standards.<sup>7</sup> The Bank of Xingtai was chosen because of its established business relationships with polluting industries in and around the city of Xingtai, its improving financial and operational performances, and its firm commitment to transform itself into a green bank that focuses on sustainable lending. The project will introduce the latest concepts and international best practices on green, responsible, and sustainable financing into the Bank of Xingtai's operations, including: (i) green finance taxonomies (i.e., defining what is "green"); (ii) a risk framework that covers environment, social, and governance (ESG) requirements that substantially exceed standard credit risk-based models of conventional commercial banks;<sup>8</sup> and (iii) ESG public disclosure requirements based on the Global Reporting Initiative.<sup>9</sup> The Bank of Xingtai will apply these international best practices in its financing of subprojects. In addition, the project will strengthen the Bank of Xingtai's institutional capacities in green finance policy, environmental and social safeguard systems, financial and risk management, and gender mainstreaming. The project will also serve as a green finance business model for other city and rural commercial banks in the PRC to replicate, thereby furthering the government's efforts to expand green finance in the country and, ultimately, contribute to better regional and global environmental outcomes.

5. The project is estimated to cost €681 million, of which €170 million will be from ADB's ordinary capital resources, €170 million equivalent from the Bank of Xingtai's mandatory counterpart financing, and €340 million equivalent from private sector and commercial financing (Table 1). The proportion of ADB financing of the total subproject cost will depend on the subproject financing structure and needs, but in no case will it exceed 40% of the total subproject cost. The Bank of Xingtai will provide up to CNY5,600,000 (\$800,000 equivalent) for capacity development and CNY1,400,000 (\$200,000 equivalent) for procurement and operationalization of the green finance IT system (exchange rate based on 13 August 2020).

**Table 1: Indicative Financing Plan**

Source	Amount (€ million)	Share (%)
Asian Development Bank (\$199 million equivalent)	170	25.0
The Bank of Xingtai counterpart commercial financing (\$199 million equivalent)	170	25.0
Catalyzed private sector and commercial finance <sup>a</sup> (\$398 million equivalent)	340	50.0
The Bank of Xingtai's own funds <sup>b</sup> (CNY7 million)	1	
<b>Total</b>	<b>681</b>	<b>100.0</b>

<sup>a</sup> This subproject funding will come from market sources, such as through other commercial banks.

<sup>b</sup> The Bank of Xingtai's own funds include capacity development costs and green finance IT system procurement costs. The capacity development cost is not included in the calculation of the financing shares.

Source: Asian Development Bank estimates.

6. The Government of the PRC has requested a regular loan of €170 million (\$199 million) from ADB's ordinary capital resources to help finance the project.<sup>10</sup> The loan will have a 20-

<sup>6</sup> The PRC's banking sector consists mainly of 133 city commercial banks, 1,424 rural commercial banks, 782 rural cooperatives, and 1,622 village banks. City commercial banks gain strong local business advantages from operating mainly within and around their respective municipalities.

<sup>7</sup> Subprojects are referring to the project facilities to which the Bank of Xingtai intends to lend under the ADB support.

<sup>8</sup> The ESG risk framework helps financial institutions identify and select investments and lending activities based on their ESG sustainability.

<sup>9</sup> The Global Reporting Initiative helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues through its sustainability reporting standards, which represent global best practice for reporting on economic, environmental, and social issues.

<sup>10</sup> €0.8564 = \$1.00 as of 13 August 2020.

year term, including a grace period of 5 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan and project agreements. Based on the straight-line method, the average maturity is 12.75 years, and there is no maturity premium payable to ADB.

## **D. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES**

### **1. Budget and treasury**

7. At the provincial level, the regulations are aligned and compatible with the national system. The Budget Law of the PRC was first issued in March 1994 and amended in August 2014. The amended Budget Law became effective on 1 January 2015, in which all government revenues and spending must be accounted for under one budget. Legislators have also been given a more direct role in supervising budget management, the extent of revenue collection and spending, and budget approvals and adjustments. The law has strengthened oversight by the legislatures at all levels. This further strengthens the financial management of the provincial government. The Hebei Provincial Government's budget system, same as other provinces, uses 'line item budget' with cash accounting, providing transparent data on current revenues and expenditures. This type of budgeting ensures compliance with appropriations and strict controls on inputs. Aligning with the new Budget Law, all government revenues and expenditures including government debt will be included in a unified budget plan. Such plan will be prepared by budgetary units and subject to the approval of the Standing Committee of the Hebei Provincial People's Congress, as it applies to the current fiscal budget plan. An annual financial report issued by Hebei Finance Department is publicly available on the government's website, which includes the information on the approved budget and actual budget allocation at year-end.<sup>11</sup>

8. The PRC's national public financial management's legal and regulatory framework is comprehensive. According to the 2019 International Monetary Fund's (IMF) Article IV consultation, the PRC faces relatively low risks to public sector debt sustainability, but the debt dynamics of "augmented" debt pose large risks to debt sustainability. Due to the tight control of local governments debt, local governments resort to innovative ways to finance their emerging liabilities, including off-budgetary liabilities borrowed by Local Government Financing Vehicles (LGFVs) via bank loans, bonds, trust loans and other funding sources.<sup>12</sup> It also covers debt of government-guided funds and special construction funds, whose activities are considered quasi-fiscal. These LGFVs led to: (i) lack of transparency in capital finance, (ii) fragmentation of local budgets, (iii) greater dependence on unstable sources of local revenues, (iv) greater finance sector and macro fiscal risks, and (v) missed opportunities in learning and building capacity for managing sustainable debt finance. The central government recognizes these risks and is restraining these LGFVs. It issued guidelines to prohibit the use of such public assets as collateral for debt finance by local governments and their entities, brought urban development investment corporations under a strict regulatory framework, opened new channels for providing proactive assistance in issuing provincial bonds, and allowed a few wealthier municipalities direct access to capital markets under central government supervision. It is also providing technical assistance to local governments to improve their capital budget planning process and linking it with planning.

9. The IMF's debt sustainability analysis (DSA) indicated that comprehensive fiscal measures have been used to mitigate the economic slowdown from both revenues and expenditure side during 2018–2019 and the DSA results reflect worsening debt dynamics

<sup>11</sup> [http://czt.hebei.gov.cn/root17/?cat\\_id=3050](http://czt.hebei.gov.cn/root17/?cat_id=3050).

<sup>12</sup> IMF. 2019. People's Republic of China: Article IV Consultation Staff Report. Washington DC. <https://www.imf.org/~media/Files/Publications/CR/2019/1CHNEA2019003.ashx>.

compared to last year. While official budgetary government debt remains low, “augmented” debt and associated gross financing needs are still high and debt under both definitions is on an upward trajectory. The most recent COVID-19 virus outbreak could also significantly affect the domestic economic growth the fiscal debt sustainability. Accordingly, it is important for the authorities to make continued efforts to reduce off-budget investment spending of local governments.

## **2. Accounting**

10. The revised Accounting Law in 1999 was enacted to standardize accounting methods, to ensure the truthfulness and completeness of the accounting materials, strengthen economic and financial management, improve economic results, and maintain the order of the socialist market economy. The update of the Accounting Law in 2006 brought accounting and financial reporting standards in the PRC to substantial compliance with the International Financial Reporting Standards (IFRS). The Auditing Law of the PRC (2006) improved efficiency of government fund utilization and enhanced the construction of a transparent government. The Regulations on Implementation of the Auditing Law of the PRC were last amended in May 2010. These amendments involved a number of changes, including, by lifting the limitations on publishing audit results, defining the power of auditing authorities, and clarifying the conditions for special audits and liabilities of social auditing institutions.

## **3. Anti-corruption and Governance**

11. The PRC government has promulgated anticorruption regulations and antifraud measures for public procurement and financial management including (i) the tendering and bidding law and government procurement law, both with anticorruption articles, e.g., anyone with a conflict of interest for the bid shall declare this and not participate in the procurement process; (ii) general management methods related to tendering and government procurement include anticorruption requirements; (iii) the chapter on Accounting Supervision in the Accounting Law (1999) that stipulates the requirements on internal control and supervision and that the local financial department has the obligation to supervise financial management; and (iv) National Development and Reform Commission (NDRC) has issued regulations that require the public disclosure of procurement information. In addition, under the PRC’s anti-corruption drive, central government and provincial anti-corruption watchdogs have been established and well-functioning. A number of senior government officials have been arrested and prosecuted. Public monitoring and reporting have been encouraged and protected. This has significantly improved the public sector governance and transparency.

## **4. Institutional Capacity**

12. The institutional capacities of the central and provincial governments are adequate. Department of International Economics and Financial Cooperation of the MOF is among the premier public sector employers in the PRC, and some staff members are also seconded to ADB and the World Bank. Hebei Provincial Government including Development and Reform Commission (DRC) and Department of Finance also have similar strong institutional capacity. Relevant government agencies often send their staff to attend training programs hosted by ADB and the World Bank. Hebei Department of Finance has extensive institutional capacity from managing over 168 donor-funded projects including at least 6 ADB-financed projects since 1998. They have also attended trainings on (i) ADB Disbursement Policy Training, (ii) ADB Performance Evaluation Training, (ii) World Bank Disbursement Policy Training, (iii) Ministry of Finance Foreign-Funded Project Management Training, and (iv) Ministry of Finance Foreign Loan Monitoring and Warning System Training. At the project level, there are clear government guidelines to handling international development assistance, including *Loan and Grant Management from International Organizations and Foreign Governments* [(Finance, China (2016) Order No. 85] and *Project Financial Management for Loans and Grants* by

*International Organizations and Foreign Governments [Finance, China (2017) Order No. 28]. In terms of procurement, there is also a Procurement Guideline for Project Loans and Grants from International Organizations and Foreign Government [(Finance, China (2017) Order No. 25].*

## **E. PROJECT FINANCIAL MANAGEMENT SYSTEM**

**13. Implementing Agency.** The Bank of Xingtai will act as a financial intermediary for the proposed green finance development project. The Bank of Xingtai is a city commercial bank established jointly by Xingtai Finance Bureau and Xingtai Credit Cooperative Labor Union in 2002 initially named Xingtai City Credit Cooperative. It was restructured as Xingtai City Commercial Bank in 2007 and further renamed as the Bank of Xingtai in 2010 after approval by China Banking Regulatory Commission (CBRC), renamed in 2018 as China Banking and Insurance Regulatory Commission (CBIRC). As of September 2019, Hebei Shunde Investment Group, which is a holding company 100% owned by the Xingtai City Government, has the largest share of the Bank of Xingtai (at 18.5%). Thus, local governments as represented by Xingtai city government have a great influence on the bank's overall governance and integrity system. But the bank is independently operated by the management team, subject to the direction of the board of directors and under the supervision of the board of supervisors.

**14. Corporate governance.** The Bank of Xingtai has a relatively sound corporate governance structure. It is a regulated and licensed city commercial bank with diverse shareholding structure. Hebei Shunde Investment Group, which is 100% owned by the Xingtai City Government, holds the largest (18.5%) share. Other shareholders include other municipalities and commercial enterprises. There are nine board directors, including two independent directors, one of whom has substantial commercial banking background and no government affiliation. There are five board committees: risk management, related party transaction, assets and liabilities management, audit, and information technology management. The supervisory board has two external members and two staff supervisory members. Under the proposed project, ADB will help the Bank of Xingtai assess its corporate governance needs and provide the necessary support. Integrity due diligence was conducted, and no significant risks were identified.

**15. Loan Management Procedure.** The loan approval process of the Bank of Xingtai starts from the subbranch level. The loan application is first prepared by the subbranch loan officer, who has the direct contact with the borrower. The loan application is then reviewed respectively by the subbranch marketing manager, deputy subbranch manager, and subbranch manager. Thereafter, the loan application is reviewed by the risk management staff and risk management general manager, headquarters' credit review committee, vice president, and/or president. For corporate and project loans, the delegation of authority is complex. Some examples include, among others, (i) branch manager (below CNY5 million with collaterals); (ii) headquarters' vice president (below CNY2 million with guarantee, between CNY2 million to CNY5 million with guarantee, between CNY5 million to CNY20 million with collaterals); (iii) headquarters' president (above CNY20 million with guarantee and above CNY30 million with collaterals).

**16. Information Technology System.** While the core banking system has been updated by the end of 2019, the Bank of Xingtai's financial management system still uses the system from Yonyou Network Technology Company Limited, which is the largest accounting software provider in the PRC.

**17. Operating Performance.** The Bank of Xingtai's financial performance based on "CAMELS" rating model (capital adequacy, asset quality, management quality, earning, liquidity, and sensitivity to market risk) is satisfactory. ADB's CNY1,378 million (\$200 million)

accounts for 1.5% of the Bank of Xingtai's total balance sheet of CNY92,744 million (\$13,460 million) and 2.9% of the total loan book of CNY47,661 million (\$6,917 million) as of 2019. Local credit report, dated in July 2019, rated the Bank of Xingtai "AA" (2 notches below the sovereign) with a stable outlook. The Bank of Xingtai's financial projections are provide as follows:

**Table 2: Financial Projections (2019–2023)**

Amount in CNY thousands	2018	2019	2020	2021	2022	2023
Net customer loans	47,661,125	52,427,237	57,669,961	63,436,957	69,780,653	76,758,718
Earning assets <sup>a</sup>	69,477,179	77,733,860	87,025,643	97,489,549	109,281,659	122,579,885
Total assets	92,743,872	102,935,388	114,389,322	127,277,609	141,797,416	158,175,071
Deposits	76,374,075	82,348,310	91,511,457	101,822,087	113,437,933	126,540,057
Borrowings	5,043,178	7,388,077	7,490,764	7,582,100	7,647,745	7,678,822
Non-interest bearing liabilities	4,585,596	5,450,697	6,482,367	7,712,904	9,180,889	10,932,415
Retained earnings	1,456,760	2,007,850	2,546,037	3,121,755	3,744,013	4,414,060
Other equity	5,284,263	5,740,453	6,358,696	7,038,763	7,786,836	8,609,717
Total liabilities and equity	92,743,872	102,935,388	114,389,322	127,277,609	141,797,416	158,175,071
Net income	410,382	787,271	768,839	822,454	888,941	957,210
Return on assets	0.45%	0.80%	0.71%	0.68%	0.66%	0.64%
Net interest margin	2.37%	2.34%	2.24%	2.15%	2.06%	1.96%
Debt to equity ratio	12.08	11.58	11.12	10.77	10.50	10.31

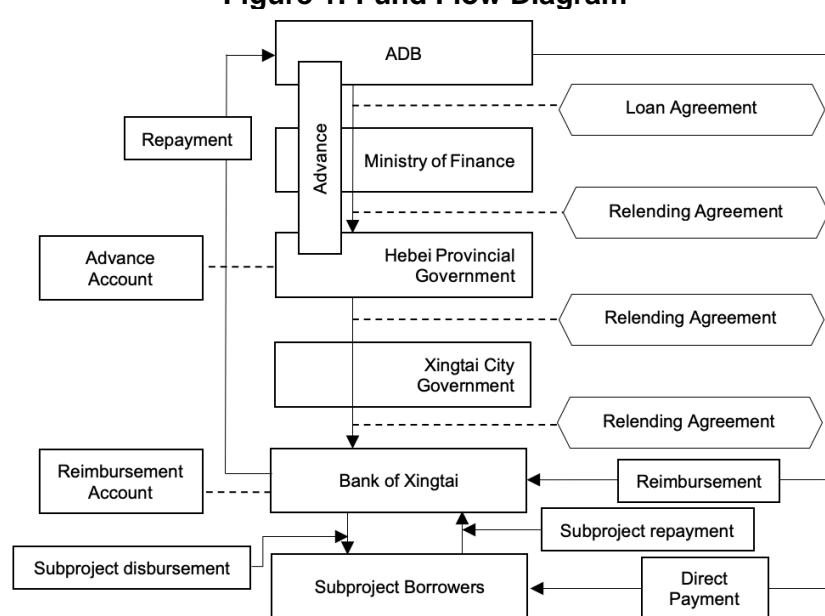
<sup>a</sup> Comprised of loans and available-for-sale securities.

The key assumptions are (i) 10% annual loan growth rate and 16% annual growth rate of other interest carrying investments (historical averages are 28.5% and 57.1% respectively), (ii) 10% of equity capital increase each year, (iii) 9.5% average annual growth rate of interest income, (iv) Except that 1% of outstanding ADB loan will be set aside each year as loss reserve, ADB loan's impact is minimal to Bank of Xingtai's earnings on the condition that credit risk is well managed, (v) loan loss reserves comprise 3.0% of customer loans, (vi) general and administrative expenses except loss reserves will growth at 5%, and (vii) average 24.5% of income tax rate. These assumptions are aligned with or more conservative than historical records of the Bank of Xingtai.

Source: Asian Development Bank.

18. The project funds flow is as follows.

**Figure 1: Fund Flow Diagram**



—► means actual funds flow; - - - - - procedural requirement.

Note: the ADB funds will flow from ADB directly to Hebei Provincial Government, which will channel the same funds directly to the Bank of Xingtai, bypassing the Ministry of Finance and Xingtai City Government respectively. Sources: Asian Development Bank, Government of People's Republic of China, and the Bank of Xingtai.

19. **Organization and Staffing.** The Bank of Xingtai has 4 branch offices and 74



subbranch offices located in five cities of Hebei serving customers around the province. At the Bank of Xingtai's headquarters, there are 23 departments with clear front office, middle office, and back office structure. Front offices include operations departments focusing on lending products; middle offices include risk management, credit, audit, and information technologies. Back offices mainly include administrative units. The proposed project will be implemented by the credit department, which has 16 staff members and considered highly competent. The general manager of the credit department will be the project director and 4 additional staff members will assist the project director to implement the ADB project. These 4 staff members have college degrees and 2 have graduate degrees with 1 of them studied overseas. When needed, the entire credit department could support the ADB project implementation. The staff turnover in the Bank of Xingtai, which is considered a premier employer in Xingtai City, is very low.

**20. Accounting Policy and Procedures.** The Bank of Xingtai follows accrual basis of accounting in accordance with the national accounting law: the PRC's Accounting Standards for Business Enterprises (ASBEs), which are substantially converged with the IFRS. All companies listed in China must apply ASBEs for the preparation of their financial statements. Currently, the new Chinese accounting standards are about 90% converged with the IFRS. The Bank of Xingtai's accounting system covers project management functions, and all transactions under the project will be booked and the original accounting documents and approval certificates will be retained. The General Ledger and subsidiary ledgers are reconciled on a daily basis. Hebei Provincial Government, Xingtai City Government, and the Bank of Xingtai will maintain, or cause to be maintained, separate records of all project-related expenditures incurred following accrual-based accounting following the equivalent China's accounting standards for enterprises. The Bank of Xingtai will prepare consolidated project financial statements in accordance with the PRC accounting laws and regulations which are consistent with international accounting principles and practices. All retained accounting and supporting documents are permanently kept in the archive rooms of branches and subbranches. Authorized users are allowed to get access to the system.

**21. Internal Audit.** The Bank of Xingtai has a fully functional internal audit department. The department has 12 employees. One staff member is both intermediate accountant and intermediate economist; three staff members are intermediate economists; one staff member is an IT auditor; four staff are intermediate accountants and Certified Public Accountants (CPAs); one staff holds the degree of intermediate accounting, CPA and registered tax professional. All have internal audit experience of at least 3 years. The internal audit department reports to the board of directors and board of supervisors. The ADB project will be included in the scope of internal audit and covered in the annual total audit. Correction measures are taken. The (internal) audit department regularly supervises and facilitates the corrective actions based on internal audit findings. However, internal auditors do not have sufficient knowledge and understanding of ADB's guidelines and procedures on audit and disbursement and will be included in relevant training.

**22. External Audit.** A high-quality external audit is an essential requirement for creating transparency in the use of funds. External financial audits of the Bank of Xingtai are conducted annually. Currently the auditor of the Bank of Xingtai is Zhongxinhua CPAs (Special General Partnership). The audit opinion is standard unqualified opinion. There are no delays in audits of the Bank of Xingtai and the audit reports are issued in May every year. The audits are conducted according to auditing standards for certified public accountants in China. The Chinese standards are consistent with International standards in most aspects. There were no major accountability issues brought out in the audit report of the past three years. Hebei Provincial Government, Xingtai City Government, and the Bank of Xingtai will cause the detailed consolidated project financial statements to be audited in accordance with International Standards on Auditing and with the Government's audit regulations, by an independent auditor acceptable to ADB. The audited project financial statements will be

submitted in English to ADB within six months of the end of the fiscal year by the Hebei Provincial Government.

**23. Payments, Cash Management, and Assets Management.** The Bank of Xingtai overall internal control system for administrative functions are strong. Sufficient safeguards exist for approval of expenditure against the allocated budget with procedures in place for approvals for variation from allocated budget and quarterly reporting and explanations for variance of actuals versus budget. The Bank of Xingtai maintains an adequate, up-to-date cashbook, recording receipts and payments. Proper controls exist for the collection, timely deposit and recording of receipts at each collection location and the bank transaction system is automatically recording. The bank and cash are reconciled on a monthly basis. For the safeguard of ADB funds, the Bank of Xingtai has a strong capacity to establish independent procedures to avoid misuse of funds. The Bank of Xingtai always notify its staff, beneficiaries and other recipients to report in a timely manner if they suspect fraud, wastage, or misuse of project resources and property.

**24. Reporting systems.** Financial Statements are prepared for the implementing agency (IA) on quarterly and yearly basis and financial reporting is also done monthly, quarterly and annually. The financial statements are prepared for the entity in accordance with the PRC's accounting standards for enterprises which are consistent with International standards in most aspects. Financial reports are generated from the automated accounting software by Yonyou Network Technology Co. for all accounting transactions, financial statements, and reporting. The financial management reports are used by management in the process of planning, budgeting and for decision making. The actual expenditures are quarterly compared to the budget, and reasonable explanations and prior approval by top management are required for budget change.

**25. Public disclosure.** The Bank of Xingtai has formulated the Measures for the Administration of Information Disclosure, which specifies the contents of information disclosure, information disclosure management, information disclosure responsibilities respectively, with an aim to ensure that our bank's information disclosure work is done in a standard way. At present, the Bank of Xingtai prepares annual reports and semi-annual reports in accordance with the relevant requirements of the Information Disclosure Management Measures, discloses them through the official website. Such practice improves the transparency of our information disclosure. Furthermore, ADB shall disclose the annual audited financial statements for the project and the opinion of the auditors on the financial statements no later than 14 calendar days from ADB's confirmation of their acceptability in accordance with the ADB's Access to Information Policy. The management letter will not be disclosed.

## **F. RISK ANALYSIS AND RISK ASSESSMENT**

**26.** The Bank of Xingtai implemented a comprehensive total risk management system. In accordance with the principles of all-round coverage, full-process management, every-employee participation, they combine the bank's risk preference, policy system, organizational system, tool model, data system and risk culture. With an aim to timely identify, measure, monitor, report, and control all types of risks in their business operations, and eventually to ensure that the bank's risk management is effectively operated in all aspects from decision-making, enforcement to supervision. In regards to organizational structure of risk management, the Bank of Xingtai board of directors assumes the ultimate responsibility for risk management and executes the related functions through special committees under the board, including strategy committee, risk management and related transaction control committee, audit committee and nomination and remuneration committee, so as to supervise and evaluate the bank's risk management system construction progress and the bank's risk level.

27. Senior management is the organizer and implementer of the bank's risk management work. It is supported by a few risk-management related administrative committees including the comprehensive risk management committee (under which different categories of risk management subcommittees are established), the credit review committee, the asset and liability management committee, and the innovation management committee. Among them, the Comprehensive Risk Management Committee is mainly responsible for considering major risk management matters, studying and formulating comprehensive risk management policy systems and management tools, analyzing and evaluating the overall risk profile of the entire bank, and coordinating guidance and supervising the risk management of departments and branches. In accordance with the principles of "central control, matrix distribution, all-round coverage and every employee participation", the bank has established a "three lines of defense" for risk management, which are jointly composed of business operations, risk management departments and internal audit departments.

28. In regard to the risk management policies, the bank continuously optimizes the risk management policy system. The following policy systems have been formulated and improved for eight risk management policies: (i) credit risk management policy, (ii) operation risk management policy, (iii) market risk management policy, (iv) IT risk management policy, (v) assets and liabilities risk management policy, and (vi) concentration risk management policy and capital management policy. In the framework of comprehensive risk management policy and various specialized risk management policies, the bank has formulated and improved the management methods and operational processes for different categories of risks; including management methods on reporting operation risk, on key risk indicators, on collecting the lost data, market risk quota management methods, management methods on capital planning, and management methods on liquidity risk management.

29. Although not immediately relevant to the ADB project implementation, the Bank of Xingtai just obtained a membership in the China Foreign Exchange Trading Center in 2018 to have the right of spot-rate inquiry for foreign exchange transactions. The Bank of Xingtai has limited ability to forecast and hedge foreign exchange risk exposures and respond to foreign exchange risks such as through cross currency and interest rate swap transactions. Second, the Bank of Xingtai has a large maturity gap, and the Bank of Xingtai needs to have the ability to better manage its interest rate risk.

30. The FMA has considered two types of risks: (i) inherent risks, e.g., risks outside the direct control of the entity financial management; and (ii) control risks, i.e. risks concerning the internal functioning and control of the entity's accounts division. The following key risks have been identified.

**Table 3: Financial Management Inherent and Control Risk Assessment**

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measures or Risk Management Plan</b>
<b>Inherent Risk</b>		
<b>I. Country Specific</b>		
The PRC's public financial management capacity is adequate at central and provincial government levels. Provincial governments are perceived to sometimes use off-balance sheet and quasi-fiscal resources to finance their budgets. This reduces the overall budget creditability and leads to contingent fiscal risks. The PRC's accounting and auditing standards are converging with the international financial reporting standards but may not meet the	Moderate	With the gradual convergence between the PRC accounting standards and the international accounting standards, the reporting gap will narrow. Over time, it is also expected that the central government will better manage the fiscal risks and improve the public financial management capacities.

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measures or Risk Management Plan</b>
ADB requirements. The Bank of Xingtai may not have experience working with the PRC's supreme audit institution to deliver timely project audit reports. The fiduciary systems assessment indicates that overall fiduciary risk in the PRC is moderate.		
<b>II. Entity Specific</b>		
The Bank of Xingtai is a city commercial bank in Hebei Province. It has not had exposures to international development institutions or borrowed from external resources such as the ADB loan. Comparing to the larger state banks, its institutional capacity is considered weaker.	Moderate	Through the project, the Bank of Xingtai intends to improve its institutional capacity.
<b>III. Project Specific</b>		
N/A	Low	N/A
<b>Overall Inherent Risk</b>	<b>Moderate</b>	
<b>Control Risk (Bank of Xingtai)</b>		
<b>I. Funds Flow</b>		
The Bank of Xingtai has not implemented any ADB projects in the past and may have difficulties to (i) establish advance account; (ii) prepare withdrawal applications, summary/statement of expenditures (SOE) sheet for financial intermediation loans/grants, and advance account reconciliation statement, etc. to ensure timely disbursements and liquidations; (iii) prepare audited project financial statements (APFS), audit opinions on the use of loan proceeds, audit opinion on compliance with financial covenants, management letter, and audited entity financial statements (AFS).	Moderate	A designated project management unit will be established with staffing and other resources satisfactory to ADB. In addition, the Bank of Xingtai has committed an equivalent of CNY7 million to develop its institutional capacity to implement the ADB project. ADB will work closely with the Bank of Xingtai to implement the capacity development components. ADB will also invite relevant the Bank of Xingtai staff to training opportunities from ADB.
<b>II. Staffing</b>		
The project management unit was established with staff from the Bank of Xingtai's credit department, whose departmental capacity is already stretched. None of the staff had prior experiences in implementing international assistance projects. For example, they are not familiar with the ADB Loan Disbursement Handbook (2017). During the ADB project implementation, the project management unit may also need assistance from accounting, audit, and operational departments.	Moderate	The Bank of Xingtai has committed CNY7 million to develop its institutional capacity to implement the project. ADB will work closely with the Bank of Xingtai to implement the capacity development components. ADB will also invite relevant the Bank of Xingtai staff to training opportunities from ADB.
<b>III. Accounting Policy and Procedures</b>		
The PRC's ASBEs are still converging with the IFRSs, and may require external capacities and/or adjustments to meet the ADB reporting requirements. The Bank of	Low	ADB implementation unit will arrange relevant support to help the Bank of Xingtai prepare for audit reports.

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measures or Risk Management Plan</b>
Xingtai may also need additional assistance to prepare for regular APFS and AFS submissions.		
<b>IV. Internal Audit</b>		
The Bank of Xingtai's internal auditors may not have sufficient knowledge and understanding of ADB's guidelines and procedures on APFS.	Moderate	ADB implementation unit will arrange relevant support to help the Bank of Xingtai prepare for audit reports.
<b>V. External Audit</b>		
The Bank of Xingtai has not had experience in working with international development agencies on preparing the project external audit reports.	Low	ADB implementation unit will arrange relevant support to help the Bank of Xingtai prepare for audit reports.
<b>VI. Reporting and Monitoring</b>		
The Bank of Xingtai has not had experience in working with international development agencies on preparing the project progress and monitoring report pertaining to project financial management and related matters.	Moderate	ADB project officer(s) could work with the Bank of Xingtai to enhance its relevant capacities.
<b>VII. Information Systems</b>		
The updated core banking system may not be able to generate the specific project financial and audit reports and may need manual inputs and adjustments.	Low	N/A
<b>Overall Control Risk</b>	<b>Moderate</b>	<b>The implementation of mitigation actions will reduce to risk to low.</b>
<b>Overall FM Risk</b>	<b>Moderate</b>	<b>The implementation of mitigation actions will reduce to risk to low.</b>

ADB = Asian Development Bank, ASBEs = Accounting Standards for Business Enterprises, IFRS = International Financial Reporting Standards, N/A = not applicable, the PRC = People's Republic of China.

Source: Asian Development Bank.

## **G. STRENGTHS AND WEAKNESSES**

**31. Strengths.** The following strengths in FMA of the Bank of Xingtai have been identified and need to be addressed: (i) The Bank of Xingtai's core banking system has been upgraded in December 2019. (ii) The Bank of Xingtai's accounting system and policies is well-developed, and accounting procedures appear to be effective and function well (including as regards segregation of duties, payment processing, cash and bank arrangements, and safeguarding of assets). (iii) The Bank of Xingtai's financial reporting and monitoring follow the legislative requirements and is done on regular and timely basis. (iv) The Bank of Xingtai's internal control mechanisms are well established. The Bank of Xingtai's external audit framework appears well-developed and adequately operationalized, and external audit of the bank and the project accounts helps to promote accountability by reviewing and correcting systems and practices.

**32. Weaknesses.** The Bank of Xingtai's business operations are confined in the Hebei Province and mostly in and around the Xingtai area. It does not have national and international exposures. It has not had any experience in implementing international development assistance projects and may have some initial difficulties in understanding and/or following the ADB processes and procedures, including ADB's project financial management procedures, project monitoring and review requirements, and audit requirements. ADB needs to identify suitable training programs to educate the relevant project implementation staff on

ADB's guidelines and procedures.

## H. PROPOSED TIME BOUND ACTION PLAN

33. The following are proposed actions for supporting financial management by the project.

**Table 4: Time-Bound Action Plan**

<b>Weakness</b>	<b>Mitigation Action</b>	<b>Responsibility</b>	<b>Time-Bound Action Plan</b>
Xingtai City Finance Bureau and the Bank of Xingtai staff does not have sufficient experience in (i) drawing down ADB funds through reimbursement, advance, and/or direct payment; (ii) preparation of project-related withdrawal applications, summary/statement of expenditures (SOE) sheet for financial intermediation loans/grants; (iii) and advance account reconciliation statement, etc.	<p>Hebei Province Department of Finance will provide the necessary technical support.</p> <p>Xingtai City Finance Bureau and the Bank of Xingtai will attend regular ADB training sessions in ADB project administration and disbursement at least once a year during the project implementation.</p> <p>Xingtai City Finance Bureau and the Bank of Xingtai staff needs to carefully review the ADB Loan Disbursement Handbook (2017, as amended from time to time).</p>	ADB / BOX	<p>Training to the government counterparts and BOX will be on a continuous basis from 2020–2026.</p> <p>Targeted financial management training will be provided within 2020 by the project team prior to loan effectiveness.</p>
The Bank of Xingtai has a board audit committee that supervises independent audit function, carried out by the internal audit department. However, the Bank of Xingtai has not had sufficient experience in implementing development assistance projects and would need additional training to perform that function, including the preparations of audited project financial statements (APFS), audit opinions on the use of loan proceeds, audit opinion on compliance with financial covenants, management letter, and audited entity financial statements	The Bank of Xingtai will work closely with Xingtai City Finance Department and Hebei Province Department of Finance to understand the role of the implementing agency and obtain necessary training when available from ADB, World Bank, and/or any other multilateral and bilateral development agencies.	BOX	Same as above.

Weakness	Mitigation Action	Responsibility	Time-Bound Action Plan
Regular financial reports are generated from the automated accounting system and regular monitoring is carried out by the Bank of Xingtai finance staff. However, they are not familiar with accrual based financial reporting for ADB financed project.	A financial management workshop and specialized training on accrual based financial reporting for ADB financed project for the staff of project management unit is recommended to be held before loan effectiveness and during project implementation.	ADB and BOX	Targeted financial management training will be provided within 2020 by the project team prior to loan effectiveness.

ADB = Asian Development Bank, BOX = the Bank of Xingtai.

### Financial Management Assessment Questionnaire

<b>Name of the Entity</b>	The Bank of Xingtai		
<b>Self-assessment completed by</b>	Employees of the related departments	<b>Date</b>	10 September 2019
<b>Approved by</b>	Heads of the related departments	<b>Date</b>	10 September 2019

Questions	Response	Remarks
<b>1. The Financial Intermediary</b>		
1.1 What is the entity's legal status? What is about the registry information? Are its shares listed in stock exchange? If so, where is the stock exchange located? Please also name the top 10 shareholders	<p>The Bank of Xingtai, is formerly known as Xingtai City Credit Corporative, was established in December 2002, and then restructured into Xingtai City Commercial Bank Shareholding Company in 2007 and later renamed as the Bank of Xingtai in 2010. Its registered capital is CNY2.2 billion and is not listed in stock exchange.</p> <p>Top 15 shareholders and their share portion are shown below:</p> <ol style="list-style-type: none"> <li>1. Hebei Shunde Investment Group (statement of expenditures [SOE], 100% owned by Xingtai Finance Bureau), 18.51%</li> <li>2. Jinglong Industrial Group Co., 12.31%</li> <li>3. Xingtai Wangxin Industry and Trade Co. 10.77%</li> <li>4. Fengrong Co., Ltd. 10.77%</li> <li>5. Dongguan Bank Co. 9.79%</li> <li>6. Xingtai Taida Real Estate Development Co. 2.49%</li> <li>7. Hebei Yongkang Real Estate Development Group Co. 2.37%</li> <li>8. Ningjin County Finance Bureau 1.77%</li> <li>9. Hebei Wanfang Cables Group 1.70%</li> <li>10. Nangong City Finance Bureau 1.63%</li> <li>11. Baixiang County Finance Bureau 1.63%</li> <li>12. Hebei Tuojin Mining Co. 1.63%</li> <li>13. Hebei Fengjia Real Estate Development Co. 1.63%</li> <li>14. Hebei Tiema Mining Co. 1.63%</li> <li>15. Hebei Dongsheng Yinghua Pharmaseutical Co. 1.63%</li> </ol>	
1.2 Has the entity implemented an externally financed project in the past - if so, please provide details?	No.	
1.3 What are the statutory reporting requirements for the entity?	Balance sheet, income statement, cashflow statement. It can be revised as per the requirements of Ministry of Finance (MOF), National Development and Reform Commission (NDRC) and Asian Development Bank (ADB).	Regulatory indicator monitoring reports should also be submitted to the regulator.



Questions	Response	Remarks
1.4 Who is the governing body? Is the governing body for the project independent?	People's Bank of China (PBOC), China's central bank and China Banking and Insurance Regulatory Commission (CBIRC). The Bank of Xingtai is governed by these bodies but it independently operates.	
1.5 What major indicators are included in the home country's prudent operation rule system? In the past 3 years has the financial intermediary (FI) strictly complied with that system's requirements? If there is evidence, please provide.	Major indicators include capital adequacy ratio (CAR) (tier 1 core CAR, tier 1 CAR, and tier 2 CAR), risk management, internal control, asset quality, loss reserve, risk concentration, related transactions, and liquidity management system, etc. Yes, it has not been criticized by the CBIRC for major irregularities in the past three years. Regarding the impact of macroprudential assessment (MPA), it takes into account of 7 aspects such as capital leverage, asset liabilities, liquidity, pricing behavior, asset quality, foreign debt risk and credit policy implementation, and formulates more than 10 indicators, in order to conduct a more comprehensive assessment and appraisal of commercial banks. Two years after the introduction of this new framework, MPA has fully integrated this latest management requirement into our day-to-day operations. Overall, our banks well operated these indicators, assessed by the regulator with quarterly overall score of B since 2018.	
1.6 What is the latest entity-wide credit rating of the FI? Who is the rating agency? Please provide reference information.	The rating agency is China Chengxin International Credit Rating Co. The latest credit rating report is separately provided.	ChemoCentryx, Inc. (CCXI) Rating Report.
1.7 Please describe the FI's governance structure, including the composition and responsibilities of the board of directors, whether there are qualification and rotation requirement for the directors, how are the specialized committees (audit, risk management, remuneration, credit, asset management etc.) under the board composed of, how about the FI's information disclosure transparency, risk management policy, compliance and controlling environment.	First, at present, our bank's "three boards one management" corporate governance structure is sound, their responsibility boundary is clear. 1. Shareholders and Shareholders' general meeting. Up to now, our bank has a total of 420 shareholders, with a total share capital of 2.2 billion shares. The authority of our shareholders' meeting has been clearly defined in the Articles of Association and has been enriched and perfected in accordance with the requirements of the regulatory authorities. The general meeting of shareholders of our Bank shall, in strict accordance with the powers conferred by the Articles of Association, be convened in accordance with the general meeting's procedure rules and regulatory requirements and invite the testimony of lawyers to effectively	Org Chart can be referred to from Annual Report.

Questions	Response	Remarks
	<p>safeguard the legitimate rights and interests of shareholders.</p> <p>2. The Directors and Board of Directors. At present, the 5th Board of Directors of our Bank consists of 9 directors, of which 3 are executive directors, 2 independent directors, 3 shareholder directors and 1 employee director. Five special committees have been established under the Board of Directors, including the Audit and Compliance Committee, the Risk Management and Related Transactions Control Committee, the Strategy Committee, the Nomination and Compensation Committee and the Consumer Rights Protection Committee. Our Articles of Association clearly define the functions and powers of the board of directors and special committees, and continuously enrich and improve them in accordance with the requirements of the regulatory authorities, and at the same time formulate the rules of procedure of the board of directors. Our board of directors has strictly complied with the Articles of Association, rules of procedure and regulatory requirements to convene meetings to timely consider major decision-making matters so as to ensure the steady development of our Bank.</p> <p>3. Supervisors and Board of Supervisors Board. At present, the 5th Board of Supervisors of our Bank has a total of seven supervisors, of which one executive supervisor, 2 employee supervisors, 2 shareholder supervisors and 2 independent supervisors. The Board of Supervisors has one special committee under it the nomination committee. The Articles of Association of our Bank clearly define the powers of the Board of Supervisors and the Nomination Committee, and continuously enrich and improve them in accordance with the requirements of the supervisory authorities, and at the same time formulate the rules of procedure of the Supervisory Board. The Board of Supervisors of our Bank shall conduct activities and convene meetings in strict accordance with the Articles of Association, rules of procedure and regulatory requirements, to supervise and consider major matters in the Bank, and safeguard the</p>	

Questions	Response	Remarks
	<p>healthy development of our bank.</p> <p>Second, the articles of association of our Bank have clear provisions on the election of directors for nomination. The term of office of the directors is three years, and they can be re-elected. However, the cumulative period of service of the independent directors shall not exceed six years.</p> <p>Third, Information disclosure system.</p> <ol style="list-style-type: none"> <li>1. Our Bank has formulated the measures for the Administration of Information Disclosure of the Bank of Xingtai, which specifies the contents of information disclosure, information disclosure management, information disclosure responsibilities respectively, with an aim to ensure that our bank's information disclosure work is done in a standard way.</li> <li>2. At present, the Bank prepares annual reports and semi-annual reports in accordance with the relevant requirements of the Information Disclosure Management Measures, discloses them through the official website of the Bank, and reserves paper reports in the office of the Board of Directors for enquiry and reading. Such practice guarantees the transparency of our information disclosure.</li> </ol>	
<b>2. Funds Flow Arrangement</b>		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	To be implemented as per the related regulations of ADB, provincial and municipal Development and Reform Commission (DRC) and finance departments.	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes.	
2.3 Which branch(es) will act as banking window for the ADB loan project?	The headquarter will make reasonable arrangement as per the subproject distribution and ADB's requirement.	
2.4 Does the project team of the entity have previous experience of using imprest fund and SOE procedures?	No.	
2.5 Does the entity have/need to	Our Bank needs to have the ability to	

Questions	Response	Remarks
develop capacity to manage foreign exchange risks? Is the FI capable of providing effective foreign exchange forecasts and risk mitigation advices?	manage foreign exchange risk, which is still lacking. Since we just obtained a membership in the China Foreign Exchange Trading Center in 2018, we only have the right of spot-rate inquiry for foreign exchange transactions, therefore we have limited ability to forecast exchange rates and respond to foreign exchange risks. For the time being we are unable to provide comprehensive advice in this regard.	
2.6 Does the entity have to develop capacity to manage interest rate risks? Is the FI capable of providing effective forecasts and risk mitigation advices on London interbank offered rate (LIBOR) fluctuations?	Our Bank needs to have the ability to manage interest rate risk. Our foreign exchange business mainly relies on agency banks, the forecast of foreign currency interest rate fluctuations and the response advice to this risk mainly comes from the agency banks. Currently we do not have the ability to predict LIBOR interest rate fluctuations and deal with interest rate risk alone.	
2.7 What is the co-financing ratio of the FI? How will the FI to obtain the required co-financing funds?	Will provide co-financing from our own capital sources as per ADB requirement.	
2.8 How do you monitor eligibility of subborrowers?	We monitor monthly the eligibility of important clients and quarterly monitor that of normal clients.	
<b>3. Staffing</b>		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	The Plan and Financial Department (PFD).	
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	1. GM of PFD [HE Lei-CPA] 2. Employee of PFD [LIU Yanli-CPA] 3. Employee of PFD [LI Yajie-CPA]	See related CV.
3.3 Is the project finance and accounting function staffed adequately?	Yes.	
3.4 Is the finance and accounts staff adequately qualified and experienced?	Yes.	
3.5 Are the project accounts and finance staff trained in ADB procedures?	Will take training at suitable time as per ADB's procedure.	
3.6 What is the duration of the contract with the finance and	10 year or long term.	

Questions	Response	Remarks
accounts staff?		
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	Not applicable.	
3.8 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes.	
3.9 At what frequency are personnel transferred?	Usually three years, but one year for the posts of financial review and expense review.	
3.10 What is training policy for the finance and accounting staff?	Annual training plan. Attend ADB trainings and workshops.	
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Yes, the Bank's accounting system covers project management functions, and all transactions under the project will be booked and the original accounting documents and approval certificates will be retained. The software system provider is Yonyou Network Technology Co., Ltd. The ADB project will apply the same accounting system, which can provide separate accounting for the project.	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes, the controls will be conducted in strict accordance with the bank's operational manual.	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes.	
4.4 Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes, the reconciliation will be checked on a daily basis.	
4.5 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	All retained accounting and supporting documents are permanently kept in the archive rooms of branches and subbranches. Authorized users are allowed to get access to the system.	
4.6 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the	Yes.	

Questions	Response	Remarks
transaction; and (iii) custody of assets involved in the transaction?		
4.7 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes, the above functions are separated in different job posts.	
4.8 Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes.	
<b>Loan Management Procedure</b>		
4.9 Please describe your loan approval process	Subbranch operation department review is done by president of the subbranch and review by branch risk management department using internal rating system approval by branch president if the loan is below CNY5 million and is backed by mortgage/pledge. For loan over CNY 5million the loan application as well as appraisal documents will be submitted to headquarter credit extension management department for review and then submitted to credit extension review committee for final review by president of the bank.	
4.10 What is the FI's credit policy? Whether you have a set of financing/credit products that are suitable for SME and/or energy saving and emission reduction projects? Please specify in which aspects you have a tailored design.	Combined with the characteristics and needs of small- and medium-sized enterprises (SMEs), our bank has developed "science loan pass" "quick insurance pass" "Xiang Niu-Preferential tax loan" and other credit products. Among them, the product of science loan pass innovates the loan business through pledging patent rights, trademark rights, copyright and other intellectual property rights. For energy conservation and emission reduction, our bank launched the government purchasing order loan, the government purchasing service loan, PPP project financing and other credit products to provide financing support.	
4.11 What is the minimum internal credit rating for a borrower to get a loan? What is the minimum amount for a project loan?	BBB+. No limit.	
4.12 How are the loan amount and interest rate determined?	Decisions are based on our internal credit rating system and the related interest rate pricing policies.	
4.13 when ADB loan and the FI's own funds are extended to one subproject, will the subproject's	In this project, the FI is also the implementing agency, so there is no conflict.	

Questions	Response	Remarks
asset/charging right be provided to the IA or the FI as collateral? Or should both sides negotiate to share the collaterals?		
<b>Budgeting System</b>		
4.14 Do budgets include physical and financial targets?	Yes.	
4.15 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes, annual budgets are divided quarter by quarter. The sales, loans, deposits, and expenses etc. are prepared in detail.	
4.16 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes, actual expenditures are quarterly compared to the budget, and reasonable explanations and prior approval by top management are required for budget change.	
4.17 Are approvals for variations from the budget required in advance or after the fact?	In advance.	
4.18 Who is responsible for preparation and approval of budgets?	The PFD is responsible for the preparation and the board of directors is responsible for the approval of budgets.	
4.19 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes.	
4.20 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes.	
<b>Policies and Procedures</b>		
4.21 What is the basis of accounting (e.g., cash, accrual)?	Accrual Basis of Accounting.	
4.22 What accounting standards are followed?	Accounting Standards for Enterprises.	
4.23 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes.	
4.24 Is the accounting policy and procedure manual updated for the project activities?	No such need.	

Questions	Response	Remarks
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes.	
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes.	
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes. See articles of the bank and rules of the board of directors.	
4.28 Are manuals distributed to appropriate personnel?	Yes.	
<b>Cash and Bank</b>		
4.29 Does the FI maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes. Financial software can ensure the information is updated in time.	
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes. The bank transaction system is automatically recording.	
4.31 Are bank and cash reconciled on a monthly basis?	Yes.	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes.	
<b>Safeguard over Assets</b>		
4.33 Is there a system of adequate safeguards to protect assets from fraud, waste, and abuse?	Yes. There are adequate accounting business operation guidelines and systems to control. The ADB loan funds are to be kept in separate project accounts, which is unlikely to encounter misappropriation.	
4.34 Are assets sufficiently covered by insurance policies?	Yes.	
<b>Other</b>		
4.35 Has the FI notified its staff, beneficiaries and other recipients to report in a timely manner if they suspect fraud, waste or misuse of project resources and	Yes.	



Questions	Response	Remarks
property?		
<b>5. Internal Audit</b>		
5.1 Is there an internal audit department in the FI?  5.2 How many employees are there in the audit department and what are the qualifications and experience of audit department staff?	Yes, we have internal audit department, the Audit Department. There are 12 employees in the Audit Department.  Professional and technical qualifications: 1 person is both intermediate accountant and intermediate economist; 3 persons are intermediate economists; 1 person is IT auditor; 4 people are intermediate accountant and CPA; 1 person holds the titles of intermediate accountant, CPA, and registered tax professional.  Internal audit experience: 3-5 years: 6 people; over 5 years: 6 people	
5.3 To whom does the internal auditor report?	Report to board of directors and board of supervisors.	
5.4 Will the internal audit department include the project in its work program?	Yes, the ADB loan project will be included in the scope of internal audit and covered in the annual total audit, including the outstanding loans in each subbranch.	
5.5 Are actions taken on the internal audit findings?	Correction measures shall be taken, and the Audit Department will regularly supervise and facilitate the correction implementation.	
5.6 Does the internal auditors have sufficient knowledge and understanding of ADB's guidelines and procedures on audit and disbursement etc.?	No.	
<b>6. External Audit</b>		
6.1 Are the FI's financial statements audited regularly by an independent auditor? Who is the auditor? What is the auditor's opinion?	Yes, done annually. Currently the auditor is Zhongxinhua CPAs (Special General Partnership). The audit opinion is standard unqualified opinion.	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. It is completed in May of every year.	
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	No, it is according to auditing standards for certified public accountants in China. But the Chinese standards are consistent with International standards in most aspects.	
6.4 Were there any major accountability issues brought out in the audit report of the past	No.	

Questions	Response	Remarks
three years?		
6.5 Will the auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Can be determined as per the ADB project's requirement.	
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No.	
6.7 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	Yes, the provincial audit department.	
6.8 Does the external auditor meet with the audit committee without the presence of management (yes/no)?	Yes.	
6.9 Have you engaged external audit firms for any non-audit engagements [e.g., consulting] (yes/no)?	No.	
6.10 Are you aware of ADB auditing requirements (yes/no)?	No.	
6.11 Has the project prepared acceptable terms of reference for an annual project audit?	To be prepared.	
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes, the PRC's accounting standards for enterprises.	
7.2 Are financial statements prepared for the implementing unit?	Currently No.	
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Monthly, quarterly and annual financial reports are prepared. Yes.	
7.4 Does the reporting system need to be adapted to report on the project components?	No.	
7.5 Does the reporting system	Yes.	

Questions	Response	Remarks
have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?		
7.6 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	No. To be advised by ADB.	
7.7 Are financial management reports used by management?	Yes, in the process of planning, budgeting and decision making.	
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes.	
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Directly prepared by the Automated Accounting System.	
<b>8. Information Systems</b>		
8.1 Is the financial management system computerized?	Yes, majority portion of financial management works have realized computerized automation. The software is provided by Yonyou Network Technology Co.	Yonyou is the largest accounting software provider in China.
8.2 Can the system produce the necessary project financial reports?	Yes.	
8.3 Is the staff adequately trained to maintain the system?	Yes.	
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes.	
<b>9. Operating Performance</b>		
<b>Capital Adequacy</b>		
9.1 What are the CARs and elasticities in the last 4 years in compliance with national requirements?		See Annual Report.
(%)	China2015201620172018GrowGrow	

Questions				Response				Remarks
	Ref.					by 25%	by 50%	
Tier 1 core CAR		11.15	11.04	9.93	12.56	10.05	8.37	
Tier 1 CAR		11.15	11.04	9.93	12.56	10.05	8.37	
CAR	10.50	12.25	12.01	11.06	13.50	10.80	9.00	
9.2 What is the FI's Tier 1 capital leverage ratio and the national requirement?				The minimum tier 1 capital leverage ratio as required by the state is 4%, our bank's actual ratio is 6.63% (as of June 2019)				
<b>Asset Quality</b>								
9.3 Loan Portfolio Diversification: in terms of client groups, products, sectors, and regions.								
	<b>Client groups</b>	<b>Products</b>	<b>Industries</b>	<b>Regions</b>				
Number	6	2	18	5				
Maximum loan portion of a category	36.16%	78.78%	23.92%	70.84%				
Internal control								
9.4 How about the vulnerability of loan portfolio under stress testing. Who are the asset management companies that cooperate with the FI in the region?				Not applicable. China Cinda Asset Management Co., Hebei branch.				
9.5 Concentration risk: Is the single client/group risk exposure indicator in line with the bank's internal control standard and national requirement?				By June 2019, the loan to the largest single client of the bank accounts for 9.75% of the bank's net capital, less than the regulatory ceiling of 10%, and the credit lines granted to the bank's largest group client accounts for 13.72% of the bank's net capital, less than the regulatory ceiling of 15%. Both concentration indicators are in line with regulation.				
9.6 What are the NPL rate in past 5 years? Are they in compliance with regulatory requirements?								
	2014	2015	2016	2017	2018			
FI NPL rate	2.53%	1.44%	1.55%	1.57%	2.04%			
Regulatory requirement	5.00%	5.00%	5.00%	5.00%	5.00%			
9.7 Does the classification standard of NPL meet regulatory requirement and the relevant international Basel standard?				Yes.				
9.8 What are the NPL coverage ratios in past 5 years? In line with regulation?								
	2014	2015	2016	2017	2018			
NPL Coverage	183.64%	203.74%	175.54%	201.20%	155.40%			

Questions			Response				Remarks
ratio							
Regulatory requirement	150.00%	150.00%	150.00%	150.00%	150.00%		
Our NPL coverage ratio meets regulatory requirement.							
9.9 How is the FI's capability of disposing NPL? What is the NPL recovery rate, conversion rate of NPL to PL? and write-off rate of NPL?		We use multiple means to dispose NPL, including: cash clearance, lawsuit clearance, asset transfer, and write off etc. by August 2019, we wrote off NPL of CNY 42.81 million for the year.					
<b>Management Quality</b>							
9.10 Growth							
<b>Amt unit CNY 100 m</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>			
Total asset	402.59	701.14	817.12	876.06			
Loan	189.26	237.25	322.32	477.33			
Investment	74.63	264.66	272.78	231.96			
RWA	248.52	293.11	392.03	532.82			
9.11 Productivity							
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	See Annual Report.	
Capital profit ratio	22.38%	17.74%	14.17%	18.83%	10.64%		
Asset profit ratio	1.53%	1.22%	0.80%	0.91%	0.68%		
ROA	1.37%	1.19%	0.63%	0.85%	0.66%		
9.12 Market Segment Share							
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	Within the FI's operation regions.		
Loan share	10.52%	11.51%	13.3%	16.38%			
Loan ranking	5	5	2	2			
Deposit share	12.11%	13.82%	15.76%	17.38%			
Deposit ranking	4	3	2	2			
9.13 Return to Shareholders							
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	See Annual Report.	
ROE	20.74%	16.68%	13.18%	17.28%	8.45%		
Dividend rate	12%	12%	12%	22%	0		
Realize growth and profit goals?	Yes	Yes	Yes	Yes	Yes		
<b>Profitability</b>							
9.14 Profitability appraisal							
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>		
Net int. spread	4.14%	2.60%	2.26%	2.56%	2.37%		
Non-int. revenue rate	2.94%	23.83%	2.43%	2.46%	3.55%		
Loan yield	10.4%	10.1%	9.59%	9.12%	8.70%		
Cost/Rev. ratio	35.61%	41.46%	49.67%	38.28%	39.55%		
<b>Liquidity</b>							
9.15 Liquidity appraisal							
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	In 2018, LCR is no longer a regulator indicator for the bank and the	
Loan to deposit ratio	51.01%	53.45%	50.92%	54.10%	64.66%		
Basel III liquidity	137.32%	188.93%	187.07%	425.31%	Qualified liquid asset		

Questions						Response	Remarks
coverage ratio					adequacy ratio 112.22% (regulatory bottom is 80%)		liquid asset adequacy ratio replaced it.
<b>Risk Management</b>							
9.16 What is the FI's risk management framework? How does it control key risks such as credit risk, liquidity risk, asset-liability mismatch risk, and operational risk?						<p>Description of liquidity risk and asset-liability mismatch risk status</p> <ol style="list-style-type: none"> <li>Objectives and important policies of liquidity risk management. The objective of the company's liquidity risk management is to ensure in fulfilling its obligations to customers for them to withdraw and pay, keep good balance of size and structure of the bank's total assets and liabilities, reduce its liquidity costs through proactive management, avoid the occurrence of its own liquidity crisis, and effectively deal with systemic liquidity risk. In accordance with the dual requirements of internal management and regulatory supervision, the bank has established its liquidity risk tolerance and management principles, authorization and limit management, day-to-day management of liquidity risk, assessment and approval guidelines for new products, new businesses, new institutions, and new technologies, strengthen the measurement, monitoring and over-quota management of liquidity risk indicators, improve stress testing programs and operating rules, and organize emergency drills and continuously promote the optimization of liquidity risk management systems. At the same time, our liquidity risk management strategies, policies and procedures generally cover the bank's all businesses on and off-balance sheet on a consolidated basis.</li> <li>Liquidity risk management system. It should include the following basic elements: <ul style="list-style-type: none"> <li>Effective liquidity risk management governance structure.</li> <li>Well working liquidity risk management strategies, policies and procedures.</li> <li>Effective liquidity risk identification, measurement, monitoring and control.</li> <li>A complete management</li> </ul> </li> </ol>	See Risk Management description.

Questions	Response	Remarks
	<p>information system.</p> <p>3. Main divisions and responsibilities of liquidity risk management. We have established an organizational structure in line with the characteristics of liquidity risk, including the Board of Directors and its special committees, supervisory boards, senior management and relevant functional departments, by clearly defining the responsibilities and reporting lines of each responsible entity with regard to liquidity risk management, and establishing appropriate appraisal and accountability mechanisms.</p> <p>4. Day-to-day management of liquidity risk. During the reporting period, the bank usually implements an ex-ante balance management of liquidity risk at a hierarchical level in accordance with the requirements of total volume balance and structural equilibrium. It conducts real-time monitoring of daily position in accounts of home and foreign currencies, carry out centralized transfer of the positions of home and foreign currencies, establish a system of early declaration of large positions, and establish a monitoring mechanism for the level of total liquidity. The bank regularly (immediately for important matters) carries out liquidity risk assessment on items on and off the balance sheet, according to the bank's liquidity risk policy and risk quota requirement, it tries to achieve total balance and structural equilibrium in the business development through active financing arrangements and asset-liability portfolio adjustment, so as to effectively meet the objectives of moderate liquidity management requirements.</p>	
9.17 What is the ability and plan of the FI to tackle interest rate risk?	<p>The current interest rate risk of the bank is mainly reflected in that of bank accounts. The intrinsic risk level of CNY interest rate risk is low, and the overall risk situation is moderate and controllable. At present, the corporate governance structure of the Bank of Xingtai is basically sound, and the interest rate risk monitoring and measurement system has been gradually established.</p>	See Risk Management description.

Questions	Response	Remarks
9.18 What is the ability and plan of the FI to tackle foreign exchange rate risk?	<ol style="list-style-type: none"> <li>Through training to improve employee capability.</li> <li>We have a plan to appropriate a certain risk loss reserve (Note: this is for the foreign currency exchange rate risk in relation to ADB loan).</li> </ol>	See Risk Management description.
<b>10. Others</b>		
10.1 Sources and possibilities for the FI to receive additional capital injections in case of a capital shortage crisis	As our bank is a joint-stock limited company, we can raise capital from all sectors, and we can sign an agreement with the institutional shareholders to continuously replenish equity capital. At present, our Bank is in the declaration process for issuing a secondary capital debt. If successful, our capital can be further replenished.	
10.2 Forecast for the next five years. Please provide data on key performance/regulatory indicators with appraisal requirements	Our Bank has formulated a development planning outline for the period of 2018-2020 in the 13th five-year period (which was approved by the board of directors). At present we do not have a five-year performance forecast.	If no, additional data may be needed.
<b>11. Corporate Governance</b>		
<b>11.1 Strategic</b> a. Does the FI have a long-term business plan?  b. Does the FI have a clearly articulated vision for its growth and profitability?  c. In what areas did the FI succeed in the past?  d. What has been the FI's most successful activities?	a. Three-year business plan (as mentioned above), which is approved by the BOD.  b. Yes.  c-d. Since we are a local bank, we are good at customer relations, decision making efficiency, SME credit rating, taking savings from residents and providing good quality service.	
<b>11.2 Management</b> a. Who are the key managers? Are they same as the board?  b. How long have they served in the industry / that institution?  c. Are there clear policies laid down for various aspects of the business?  d. Are targets and market approach clear?	a. See the annual report. Not same, only 3 top management members are board director.  b. And they have 30-year banking experience on average.  c. Yes.  d. Yes, they are articulated in the three-year plan.	
<b>11.3 Employee Management</b> a. How does the attrition rate of employees compare with	a. Below the sector average.	



<p>other institutions?</p> <p>b. What are the stock options and other experiences?</p> <p>c. What is the capacity building of employees and employee development initiatives?</p> <p>d. Are there any legal cases pending from employees?</p>	<p>b. No option to employees.</p> <p>c. Professional, monthly cultural trainings provided to employees. Employee career development are appraised mainly on the basis of performance and capability.</p> <p>d. No.</p>	
<p>11.4 Regulatory compliance</p> <p>a. What are the statutory filings required for the FI?</p> <p>b. Any negative findings in regulatory audit?</p> <p>c. Is there a score given for regulatory audit and if so what was the score for the last 3 years?</p> <p>d. What shortcomings have been identified in any regulatory audit and how has the FI addressed these issues?</p> <p>e. Fines if any paid to the regulator</p>	<p>a. Monthly and quarterly reports on regulatory indicators, and annual audited financial statements.</p> <p>b. No.</p> <p>c. The bank is rated 3A in 2018, and 2017 and 3B in 2016 by regulatory body.</p> <p>d. In each area of CAMELS, the regulatory audit has found some minor shortcomings. The bank has formulated correction plan for all issues that needs improvement, submitted it to regulator for acceptance, and then implemented it.</p> <p>e. CNY105,000 was fined in 2018 for minor compliance violation.</p>	
<p><b>12. Risk Management Framework</b></p>		
<p>12.1 Risk Management</p> <p>a. Does the FI have a risk committee and a risk policy?</p> <p>b. How often is the risk policy reviewed?</p> <p>c. Has there been a stress testing done and what has been the assessment of value at risk?</p> <p>d. Does the FI have an internal risk rating system or do they use the credit rating agency rating?</p> <p>e. Is the lending done as per</p> <p>f. risk pricing formula or is it discretionary?</p>	<p>a-b. Bank of Xingtai has a risk committee and a risk policy which is reviewed every half year in the total risk appraisal report.</p> <p>c. There been a stress testing done. Liquidity, market, credit stress tests were done in 2018 and the bank can sustain the stress impact scenarios.</p> <p>d. The Bank of Xingtai have an internal rating system, which is a unified computer software installed in the headquarter and all branches and subbranches.</p> <p>e. The lending is done as per risk pricing.</p> <p>f. There is a market risk and asset liability</p>	

<p>g. What is the kind of market risk and asset liability mismatch risk that is considered acceptable?</p> <p>h. Has there been any adverse regulatory comment on risk practices?</p> <p>i. Are there any areas identified by the Risk committee / internal audit / operations team that are considered vulnerable and if so how has it been addressed?</p>	<p>mismatch risk Investment on AA or above rating financial debts, and local government bonds, and treasury bonds.</p> <p>g. The structure with liabilities over 90 days accounting for over 70% of the bank's liabilities is regarded robust. The bank has its own emergency plan to tackle the possible liquidity problem.</p> <p>h. There are some minor adverse recommendations from the regulator and the bank has submitted correction plan and will implement it phase by phase.</p> <p>i. The Bank has a system requiring its operation teams (first front), risk management department (second front) and audit department (third front) to regularly check the vulnerable flaws and correct them once identified.</p>	
<p>12.2 Credit Function</p> <p>a. Does the FI have a credit policy?</p> <p>b. What types of lending products are available and are they comparable to peers?</p> <p>c. What is the base rate of lending and is it competitive?</p> <p>d. What percentage of overall loans do the top 10 constitute?</p> <p>e. Do the regional offices have enough autonomy to take lending decisions?</p> <p>f. If the FI lends in a consortium arrangement does it conduct an independent appraisal, or does it rely on the appraisal of the lead FI?</p> <p>g. Does the FI have a well-established appraisal process in terms of depth and flow?</p>	<p>a. The Bank of Xingtai has a credit policy. The types of lending products are available and they are comparable to peers.</p> <p>b. There is corporate lending of five types (working capital loan, trade finance, long term fixed asset loan, real estate development loan, and mixed) 32 products. All clients are covered comparing with peers. Prime lending rate for most credible borrowers; competitive since our borrowers are mostly SMEs.</p> <p>c-e. The base rate of lending 8.45% in the end of 2018. A single corporate loan under CNY5 million backed by qualified collateral can be approved by branch president</p> <p>f. If the bank joins in a consortium loan it mainly relies on its independent appraisal with reference to the lead FI's appraisal.</p> <p>g. The bank has a well-established appraisal process in terms of depth and flow. The Bank of Xingtai have external</p>	<p>Prime lending rate is published by the Central Bank.</p>

	experts who can participate in appraisal but cannot vote in the decision-making process of loan review committee, which is working well for our current business.	
<p>12.3 NPL management</p> <p>a. Does the FI have a clearly defined recognition policy for NPLs?</p> <p>b. Are the FI's definition for NPLs consistent with regulators' definition?</p> <p>c. How involved is senior management in NPL management?</p> <p>d. Are specialized teams involved in NPL recovery?</p> <p>e. What corrective steps have been taken in the 3 years to reduce NPLs?</p> <p>f. Is the management aggressive in collateral realization to recover dues?</p> <p>g. Have there been any regulatory issues / concerns in recognition and management of NPLs?</p>	<p>a. The bank has a clearly defined recognition policy for NPLs.</p> <p>b. The Bank of Xingtai definition for NPLs consistent with regulators' definition.</p> <p>c. Very high.</p> <p>d-f. The Bank of Xingtai have contracted 8 law firms for NPL disposal. They also formed partnership relation with China Cinda Asset Management Co., Ltd. Legal suits, sector structure adjustment and stricter collateral requirement is dependent on the borrower's situation. If it will go bankruptcy, the bank will immediately pursue collateral realization, if the borrower only encounters temporary difficulty, the bank will give it some grace period.</p> <p>g. There have been no regulatory issues / concerns in recognition and management of NPLs.</p>	
<p>12.4 Off balance sheet liabilities</p> <p>a. Any significant increase in off balance sheet liabilities</p> <p>b. Pending legal disputes and status?</p> <p>c. Hedging contracts and open positions.</p>	<p>a. There is no significant increase in off balance sheet liabilities. They are decreasing continuously.</p> <p>b. There are no pending legal disputes.</p> <p>c. There are no hedging contracts and open positions.</p>	
<p>12.5 Funding</p> <p>a. Is the FI aggressive in pursuing low cost funds?</p> <p>b. Can the FI raise sufficient low-cost liabilities to pursue future growth plans?</p> <p>c. What proportion of the deposits are bulk deposits?</p>	<p>a. The Bank of Xingtai is very aggressive in pursuing low cost funds.</p> <p>b. The Bank of Xingtai raise sufficient low-cost liabilities to pursue future growth plans through various sources such as PBOC SME loan, and re-discounting loan, and resident deposits.</p> <p>c. Less than 10% of the deposits are bulk deposits.</p>	

<p>d. What are the other market borrowing options in its pool of funds?</p> <p>e. Does the credit rating of the institution allow it to raise funds unhindered?</p>	<p>d-e. There are market borrowing options in its pool of funds Inter-bank borrowing, and interactive mechanism between ten city commercial banks of Hebei for up to CNY one billion. The Bank of Xingtai is rated AA. To raise funds through bond, it is a little bit time-consuming since a lot of approvals by PBOC, CBIRC, and CSRC should be obtained in advance (PBOC - People's Bank of China, CBIR - China Banking and Insurance Regulatory Commission, CSRC - China Securities Regulatory Commission).</p>	
<p>12.6 Investment Portfolio</p> <p>a. Is there a broad investment plan that is adhered to or is the investment driven by market instruments?</p> <p>b. What proportion of the investment portfolio is in government securities?</p> <p>c. Has the FI, in the past 5 years, conducted any write-offs because of mark-to-market issues?</p> <p>d. Has the FI conducted any stress testing on its investment portfolio?</p>	<p>a. Investment is driven by market situation and macro-economic situation.</p> <p>b. There is 15% on national and local government debt as of September 2019.</p> <p>c. The write off is done at least annually because of marking to market as per China's accounting standards.</p> <p>d. The stress testing and liquidity risk testing are done annually.</p>	
<p>12.7 Compliance Function</p> <p>a. Is there a separate compliance function?</p> <p>b. Who does the compliance function report to? Is it independent?</p> <p>c. Is the unit adequately staffed?</p> <p>d. Is there a whistle blower policy?</p>	<p>a. No separate department. The bank has two compliance posts which are set within the Risk Management Department.</p> <p>b. They report to the GM of Risk Management Department which is independent of operation department.</p> <p>c. Currently the unit is adequately staffed.</p> <p>d. There is a whistle blower policy Compliant box and telephone number available in each branch and subbranch of the bank.</p>	
<p>12.8 Collateral/Asset protection measures</p> <p>a. Does the FI have adequate measures to protect asset financed?</p> <p>b. Is the asset documentation adequate for enforcement if required?</p> <p>c. How often are assets inspected</p>	<p>a-c. There are over 70% of loans which are backed by collaterals (mortgage, pledge, and guarantees)</p> <p>The Bank of Xingtai have adequate measures to protect asset financed. Its effectiveness and adequacy are reviewed by the bank's lawyer. The assets are inspected and assessed annually.</p>	

and how often are they assessed?		
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