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中國光大銀行股份有限公司

**China Everbright Bank Company Limited**

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

**(Stock code: 6818)**

## **2016 ANNUAL RESULTS ANNOUNCEMENT**

The Board of Directors of China Everbright Bank Company Limited (the “Company”) hereby announces the audited results of the Company and its subsidiaries for the year ended 31 December 2016. This announcement, containing the full text of the 2016 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to the information accompanying this announcement of annual results. The printed version of the Company's 2016 Annual Report will be dispatched to the H shareholders of the Company and available for viewing on the websites of the Company ([www.cebbank.com](http://www.cebbank.com)) and The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) in April 2017.

## **PUBLICATION OF RESULTS ANNOUNCEMENT**

Both the Chinese and English versions of this results announcement are available on the websites of the Company ([www.cebbank.com](http://www.cebbank.com)) and The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)). In the event of any discrepancies in interpretations between the English version and the Chinese version, the Chinese version shall prevail.

The Company also prepared the Annual Report in Chinese in accordance with the PRC Generally Accepted Accounting Principles, which is available on the websites of the Company ([www.cebbank.com](http://www.cebbank.com)) and Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)).

## DIVIDEND

The 7<sup>th</sup> meeting of the 7<sup>th</sup> Session of the Board of the Company held on 30 March 2017 approved the 2016 dividend distribution plan to declare, to the ordinary shareholders including A shareholders and H shareholders as registered on the register of members on the record date(s) as indicated in the notice of the annual general meeting for the year 2016 (“2016 AGM”) to be published by the Company in due course, a cash dividend of RMB0.98 (before tax) for every 10 shares. The above dividend distribution plan is subject to the approval at the 2016 AGM. Such dividend is expected to be paid to the shareholders of the Company on or before 30 August 2017. The Company will make relevant announcements in a timely manner in respect of further information regarding the payment of the dividend.

Notice of the 2016 AGM will announce the date of the 2016 AGM and details of the Company's book closure, as well as the arrangement of book closure for the dividend distribution.

On behalf of the Board of Directors  
**China Everbright Bank Company Limited**  
**TANG Shuangning**  
*Chairman*

Beijing, the PRC, 30 March 2017

*As at the date of this announcement, the Executive Directors of the Company are Mr. Zhang Jinliang, Mr. Ma Teng and Ms. Li Jie; the Non-executive Directors are Mr. Tang Shuangning, Mr. Gao Yunlong, Mr. Zhang Shude, Mr. Li Huaqiang and Mr. Zhao Wei; and the Independent Non-executive Directors are Mr. Qiao Zhimin, Mr. Xie Rong, Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai, Mr. Feng Lun and Mr. Wang Ligu.*

## Important Notice

The Board of Directors, Board of Supervisors and Directors, Supervisors and Senior Management of the Bank hereby warrant the authenticity, accuracy and completeness of the content of this report and that there are no false representations, misleading statements or material omissions, and jointly and severally accept full responsibility for the information in this report.

The Seventh meeting of the Seventh session of the Board of Directors of the Bank was convened in Beijing on 30 March 2017, at which the 2016 Annual Report of the Bank was considered and approved. 14 out of 14 Directors attended the meeting in person. Director Mr. Zhang Shude was authorized by Director Mr. Zhao Wei, who was unable to attend the meeting due to other official duties, to attend the meeting and exercise the voting right on his behalf. 6 Supervisors attended this meeting.

The financial report of the Bank for the year 2016 was prepared in accordance with the PRC Generally Accepted Accounting Principles (“PRC GAAP”) and the International Financial Reporting Standards (“IFRS”) and was audited by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with the China Standards on Auditing and the International Standards on Auditing. Both auditors issued standard unqualified audit reports.

Mr. Tang Shuangning, Chairman of the Board of Directors, Mr. Zhang Jinliang, President, and Mr. Xie Rong, Independent Non-Executive Director, hereby warrant the authenticity, accuracy and completeness of the financial report in this report.

Unless otherwise stated, all monetary sums stated in this report are expressed in Renminbi/RMB.

The Board of Directors of the Bank proposed to pay an ordinary share dividend of RMB0.98 (before tax) for every 10 shares for 2016. Please refer to “Significant Events” for details.

Forward-looking statements such as future plans of the Bank mentioned in this report do not constitute actual commitments of the Bank to the investors. The investors and related parties should keep sufficient risk awareness in this regard, and should understand the difference between plans, predictions and commitments.

In this report, “We/we”, “our Company”, “the Company”, “the Bank”, “Whole Bank” and “China Everbright Bank” all refer to China Everbright Bank Company Limited, and “the Group” refers to China Everbright Bank Company Limited and its subsidiaries.

**The Board of Directors of  
China Everbright Bank Company Limited**  
30 March 2017

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## I. Definition and Significant Risk Warning

### I. Definition

(I) In this report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Ministry of Finance	:	Ministry of Finance of the People's Republic of China
Central Bank	:	The People's Bank of China
CBRC	:	China Banking Regulatory Commission
CSRC	:	China Securities Regulatory Commission
CIC	:	China Investment Corporation
CHI	:	Central Huijin Investment Ltd.
Everbright Group	:	China Everbright Group Limited
SSE	:	Shanghai Stock Exchange
HKSE	:	The Stock Exchange of Hong Kong Limited

(II) The following glossary contains explanations of certain terms used in connection with products of the Company to facilitate the understanding of investors:

“E-crowd-funding”: An online short-term wealth management product issued through crowd-funding channel which is the first product of this type launched in the banking industry in China. There is a range of the expected annualized return rate of the product in each issue period. The higher the number of customers with an appointment, the higher the expected annualized return rate will be. Upon the completion of the subscription, the general level of return rate will be identified in accordance with the final number of customers with an appointment.

### II. Significant Risk Warning

The Bank has disclosed herein the major risks involved in its operations and some risk management measures the Bank is planning to take to deal with these major risks accordingly. Please refer to the “Discussion and Analysis of Operations” for details.

## II. Company Profile

### I. Basic Information of the Bank

#### (I) Name of the Bank

Registered Chinese Company Name: 中國光大銀行股份有限公司(Abbreviation: 中國光大銀行 or 光大銀行)

Registered English Company Name: CHINA EVERBRIGHT BANK COMPANY LIMITED  
(Abbreviation: CEB BANK)

#### (II) Relevant Persons

Legal Representative: Tang Shuangning

Authorized representatives: Zhang Jinliang, Lu Hong

Secretary to the Board of Directors, Company Secretary: Lu Hong

Securities Affairs Representative: Li Jiayan

Assistant to Company Secretary: Lee Mei Yi

#### (III) Contacts

Contact Address: China Everbright Center, No. 25 Taipingqiao Avenue, Xicheng District, Beijing

Postal code: 100033

Tel: 010-63636363

Fax: 010-63636713

Email: [IR@cebbank.com](mailto:IR@cebbank.com)

Investor hotline: 010-63636388

#### (IV) Corporate information

Registered and Office Address: China Everbright Center, No. A25, No. 25 Taipingqiao Avenue, Xicheng District, Beijing

United Social Credit Code: 91110000100011743X

Code of financial authority: B0007H111000001

#### (V) Principal Place of Business in Hong Kong

CEB Hong Kong Branch: 30/F, Far East Finance Centre, No. 16, Harcourt Road, Admiralty, Hong Kong

(VI) Newspaper and Website Designated for Information Disclosure:

Mainland China: China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily

Websites designated by CSRC for publication of A share annual report:

SSE's website: [www.sse.com.cn](http://www.sse.com.cn)

Bank's website: [www.cebbank.com](http://www.cebbank.com)

Websites for publication of H share annual report:

HKSE's website: [www.hkex.com.hk](http://www.hkex.com.hk)

Bank's website: [www.cebbank.com](http://www.cebbank.com)

Copies of annual report are available at: Office of the Board of Directors of the Bank, SSE

(VII) Stock Exchanges for Listing of Shares:

A share: SSE

Abbreviated name: Everbright Bank;

Stock code of Ordinary Shares: 601818

Abbreviated name of Preference Shares: 光大優 1; 光大優 2;

Stock code of Preference Shares: 360013, 360022 (SSE Comprehensive Business Platform)

H share: HKSE

Abbreviated name: CEB Bank; Stock code: 6818

(VIII) Auditors during the reporting period

Domestic Auditor: Ernst & Young Hua Ming LLP

Office Address: 16/F, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing

Certified Public Accountants for Signature: Liang Chengjie, Gu Jun

Overseas Auditor: Ernst & Young

Office Address: 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong

Certified Public Accountants for Signature: Liang Chengjie

(IX) Legal advisors of the Board of Directors during the reporting period

A Share Legal Advisor: Jun He Law Offices

H Share Legal Advisor: Herbert Smith Freehills

## (X) Share Depository

A Share Ordinary Shares and Preference Shares Depository: Shanghai Branch, China Securities Depository and Clearing Corporation Limited

Office Address: 36/F, China Insurance Building, No. 166, Lujiazui East Road, Pudong New District, Shanghai

H Share Registrar: Computershare Hong Kong Investor Services Limited

Office Address: Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

## II. Introduction of the Bank

China Everbright Bank (CEB), which was established in August 1992 and headquartered in Beijing, is a national joint-stock commercial bank approved by the State Council of China and the People's Bank of China. The Bank was listed on the Shanghai Stock Exchange (SSE) in August 2010 (stock code 601818) and the Hong Kong Stock Exchange (HKSE) in December 2013 (stock code 6818).

As at the end of the reporting period, the Bank has formed a nationwide network with 1,119 branches and outlets covering 115 economic center cities of 30 provinces, autonomous regions and municipalities. Following the “go global” strategy, the Bank accelerated the pace of setting up overseas institutions. Its Hong Kong branch Seoul branch and CEB International Investment Corporation Limited have already started operation, and the establishment of CEB (Europe) S.A. and CEB Luxembourg branch are under preparation. Its long-term sponsorship for “Water Cellar for Mothers”, a public welfare program, has demonstrated CEB's commitment to its social responsibility, which has been well recognized in China and has positive impact on the society. The Bank was ranked No. 46 in the “Top 1,000 World Banks” by *the Banker*, a U.K. magazine, in 2016, rising by 11 places over the previous year.

With continuous reform and innovation in optimizing its products design, channel development and service models improvement, the Bank forged a strong market competitive edge in its major product and business lines such as asset management, investment banking business, e-banking and credit card business, etc. Therefore, the Bank has achieved a balanced growth of all business lines, with improved risk management and enhanced innovation capabilities.

Over the years, along with the evolution of Chinese economy and the growth of Chinese financial sector, the brand image and market value of the Bank has been enhanced continuously. The Bank has achieved a good performance while providing high quality financial services, and is now a well recognized listed bank with sound compliance.



### III. Honors and Awards

**The Banker**

Ranked No.46 in the “Top 1,000 World Banks”

**Directors & Boards**

Gold Round Table Award - the Excellent Board of Directors Prize

**China Securities Market Research and Design Center, Hexun.com**

Financial Institution with the Best Public Image

Most Popular Credit Card Brand

**JCB Co., Ltd.**

Award of the Best Card Issuing Bank for 2015

**VISA Inc.**

Best High-end Customer Marketing Award for 2015

**China.com.cn**

Best Credit Card Brand

**21<sup>st</sup> Century Business Herald**

Best Auto Finance Business Service Bank for 2015

Best Asset Custodian Bank Award for 2016

Best Profit Making Bank for 2016

Most Influential Commercial Bank for 2016

**IFENG.COM**

Bank of Best Public Image for the Year

**Sina.com**

Award of Innovative E-banking

**Wisemoney**

Excellent State-owned Bank

Excellent Bank for Innovative Financial Services

Excellent Green Bank

Excellent Bank for Innovative Internet Services

### **Securities Times**

Best Bond Underwriting Bank in China for 2016  
Best Investment Bank in Power Industry in China District for 2016  
Best Wealth Management Brand in China for 2016  
Best Bank for Private Banking in China for 2016  
Best Innovative Wealth Management Products in China for 2016

### **China Banking Association**

Best Green Finance on Social Responsibility Award for the Year  
Best Comprehensive Wealth Management Ability Award

### **CFO**

Best Enterprise Annuity Service Award

### **Economic Observer**

Most Respected Enterprises in China  
Excellent Bank for Contribution to Small and Micro Business for the Year  
Excellent Credit Card Service Bank for the Year

### **JRJ.com.**

Award for Social Responsibility  
Outstanding Wealth Management Award

### **Financial News**

Top 10 Internet Finance Innovative Company for the Year  
Best Small and Micro Company Business Finance Service Bank for the Year

### **China Business Journal**

2016 Excellent Bank in Competitive Product Innovation  
2016 Excellent Bank in Competitive Pension Service

### **The Asian Banker**

Excellence in Quality of Private Wealth Services Award

### **China National Radio, CNR**

The Most Promising APP for Wealth Management for 2016

### III. Chairman's Message

I have presented the annual report of the Bank for ten consecutive years from 2007 to 2016. From the perspective of Chinese people, “ten” is a sign of perfection, associated with an idiom “Shi Quan Shi Mei” meaning being perfect in every aspect. This idiom is derived from “*The Rites of Zhou-Chapter of Supervising Physicians*” (a book about etiquettes and rituals of Zhou Dynasty) . It wrote that “By the year end, each physician would be assessed based on one’s diagnostic accuracy. Physicians who made accurate diagnosis ten out of ten were assessed as “perfect”. Those whose diagnostic accuracy rate was nine out of ten were assessed to a lower grade, so on and so forth”. Such key performance indicators were used to inspect each physician’s diagnostic accuracy, denoting high expectations from the Supervisor.

Someone may say, Chairman is the “physician” for a modern enterprise. I have been the Bank’s Chairman or physician for ten years, bringing the Bank back to life through special treatments and medications. The Bank has recovered and preserved its strength ever since, and now is in good health. Looking back, I would like to share several of my prescriptions.

Firstly, adopt a proper mixture of severity and gentleness. Turn the clock back to 2007 when the Bank had not issued annual report for years. In my understanding, annual report is an enterprise’s ID to the market. In other words, an enterprise not issuing annual report will be in great jeopardy to get market recognition. Since taking office as Chairman of the Bank, I have always been humble and careful on each step with dogged determination. The Bank and I were left no choice but to stand and fight our way out. Adopting “trading space for time and trading time for space” strategy (details available online), the Bank has accumulated over RMB4 trillion assets and grown into one of the leading commercial banks in China. The Bank is taking new strides and now in its best time in history.

Secondly, carry out people-oriented strategy. Employees are the core cells of an enterprise. In the aspect of talent cultivation, I recommend “ten virtues and ten capabilities” as well as “open recommendation and open election”. In terms of management and business expansion, I advocate the spirit of “willing-to-do, get-it-done, no-fault”, so called “people-oriented economics”. After much toil and effort, the Bank has built a professional and energetic management team making contributions to both the Bank and society.

Thirdly, map out a longer-term business strategy. After a decade of twists and turns, the Bank has built up a network of domestic branches and outlets, attaching great importance to international expansion. The Bank’s subsidiaries are engaged in diversified sectors including financial leasing, consumer finance, credit card, IT and direct banking and so on. With business operation featuring steadiness and innovation, a comprehensive financial platform is taking shape.

The solid foundation of the Bank is a testimony of continuous efforts and diligence devoted by successive colleagues. The successful development of the Bank owes a great debt of gratitude to the generous support of all stakeholders. I would like to extend my heartfelt thanks to them all.

## IV. President's Message

In 2016, while focusing on steady growth, structural adjustment, risk prevention, image building and profit increase, the Bank conscientiously served the real economy, unswervingly deepened the reform and properly responded to risk challenges, leading to a progressive operating situation while ensuring stable performance.

In 2016, the business development of the Bank gained good momentum in terms of its scale, structure and quality. The net profit attributable to equity shareholders of the Bank was RMB30,329 million, representing an increase of 2.71% over the previous year. Major operating indicators such as capital adequacy ratio, provision coverage ratio, deposit deviation ratio, loan concentration ratio all met the regulatory requirements while return on assets, return on net assets and cost-to-income ratio also reached the goals set by the Board of Directors.

During the reporting period, the Bank actively adjusted its development strategy through strengthening the overall management of assets and liabilities and strictly controlling the cost of liabilities. Centering on the implementation of national strategy and service to the real economy, the Bank enhanced structural adjustments to ensure a multi-sources profit growth. Particular strength was laid on providing integrated services to customers and highlighting balanced development of its corporate banking, retail banking and financial market business. In reinforcing the influence of three lines of defense, the Bank improved the comprehensive risk management system, resulting in effective risk prevention. The Bank continuously consolidated the operating foundation and actively sought capital replenishment by successful issuance of RMB10 billion worth of preference shares. The Bank advanced the construction of channels both at home and abroad by means of setting up 72 domestic branches and outlets and accelerating paces of overseas institution establishment. The development and performance of the project of "CEB in the Cyberspace" were further improved. The reform of the performance appraisal system and staff grading system was unremittingly deepened so as to release the operational vitality.

The year 2017 is a vital stage of the implementation of "the 13th Five-year Plan" of China, a mark of the deepening of the supply-side structural reform and also an essential period for the transformation and innovation of the Bank. Following the general principle of making progress while working to keep performance stable, we will solidify the management foundation, accelerate the operational transformation, effectively enhance the capability to serve the real economy and continuously gain competitive edges in the market in an unremitting endeavor to become an outstanding joint-stock domestic commercial bank with scientific management, quality service, good performance, active market participation and distinctive features.

## V. Summary of Accounting Data and Financial Indicators

### I. Key Accounting Data and Financial Indicators

	2016	2015	Change (%)	2014	2013	2012
<b>Operating performance (RMB million)</b>						
Net interest income	65,288	66,459	-1.76	58,259	50,862	50,263
Net fee and commission income	28,112	26,301	6.89	19,157	14,952	9,479
Operating income	94,365	93,364	1.07	78,771	65,527	60,070
Operating expenses	(30,254)	(32,354)	-6.49	(30,008)	(26,473)	(22,685)
Impairment losses on assets	(23,931)	(21,652)	10.53	(10,209)	(4,633)	(5,795)
Profit before tax	40,180	39,358	2.09	38,554	34,421	31,590
Net profit	30,388	29,577	2.74	28,928	26,754	23,620
Net profit attributable to equity shareholders of the Bank	30,329	29,528	2.71	28,883	26,715	23,591
<b>Scale indicators (RMB million)</b>						
Total assets	4,020,042	3,167,710	26.91	2,737,010	2,415,086	2,279,295
Total loans and advances	1,795,278	1,513,543	18.61	1,299,455	1,166,310	1,023,187
Provision for impairment of loans	43,634	38,119	14.47	28,025	24,172	25,856
Total liabilities	3,768,974	2,943,663	28.04	2,557,527	2,262,034	2,164,973
Balance of deposits from customers	2,120,887	1,993,843	6.37	1,785,337	1,605,278	1,426,941
Equity attributable to equity shareholders of the Bank	250,455	223,493	12.06	178,975	152,839	114,178
Share capital	46,679	46,679	-	46,679	46,277	40,435
<b>Per Share (in RMB)</b>						
Net assets per share attributable to ordinary shareholders of the Bank <sup>1</sup>	4.72	4.36	8.26	3.83	3.30	2.82
Basic and diluted earnings per ordinary share <sup>2</sup>	0.63	0.63	-	0.62	0.66	0.58
<b>Profitability indicators (%)</b>						
Return on average total assets	0.85	1.00	-0.15 percentage point	1.12	1.14	1.18
Return on weighted average net assets <sup>3</sup>	13.80	15.50	-1.70 percentage points	17.36	21.48	22.54
Net interest spread	1.59	2.01	-0.42 percentage point	2.06	1.96	2.34
Net interest margin	1.78	2.25	-0.47 percentage point	2.30	2.16	2.54
Proportion of fee and commission	29.79	28.17	+1.62	24.32	22.82	15.78

	2016	2015	Change (%)	2014	2013	2012
income in operating income			percentage points			
Cost-to-income ratio	29.00	27.05	+1.95 percentage points	30.02	31.84	30.19
<b>Asset quality indicators (%)</b>						
Non-performing loan ratio	1.60	1.61	-0.01 percentage point	1.19	0.86	0.74
Provision coverage ratio	152.02	156.39	-4.37 percentage points	180.52	241.02	339.63
Provision-to-loan ratio	2.43	2.52	-0.09 percentage point	2.16	2.07	2.53

Note:

1. Net assets per share attributable to ordinary shareholders of the Bank = (net assets attributable to equity shareholders of the Bank – other equity instrument)/total number of ordinary shares at the end of the period.
2. Basic earnings per ordinary share = net profit attributable to ordinary shareholders of the Bank (with the dividends of the preference shares declared during the period deducted)/weighted average number of ordinary shares outstanding.
3. Return on weighted average net assets = net profit attributable to ordinary shareholders of the Bank (with the dividends of the preference shares declared during the period deducted)/weighted average net assets attributable to ordinary shareholders of the Bank.

The above figures were calculated according to *Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No.9): Calculation and Disclosure of Rate of Return on Equity and Earnings per Share (2010 Revision)* issued by the CSRC and the “*Interpretation of Accounting Standards for Business Enterprises (No.7)*” of the Ministry of Finance.

The Bank declared the first dividends of the preference shares of RMB1.06 billion (before tax) on 17 June 2016.

## II. Quarterly Operating Indicators During the Year

Unit: RMB million

Item	First quarter	Second quarter	Third quarter	Fourth quarter
Operating income	23,574	23,507	23,815	23,469
Net profit attributable to equity shareholders of the Bank	8,446	7,993	7,998	5,892
Net cash flows from operating activities	81,096	233,423	(85,066)	120,226

## III. Supplementary Financial Indicators

Unit: %

Item	Standard	31 December	31 December	31 December
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		value	2016	2015	2014
Liquidity ratio	RMB	≥25	63.18	54.90	45.90
	Foreign currency	≥25	78.81	98.87	109.61
Loan exposure to single largest customer ratio		≤10	2.37	2.38	3.05
Loan exposure to top ten customers ratio		≤50	14.62	11.86	15.19

Note: The above indicators were calculated in accordance with the banking level.

#### IV. Capital Composition and Changes

Capital adequacy ratios calculated in accordance with the *Regulation Governing Capital of Commercial Banks (provisional)* (released by the CBRC on 7 June 2012) are as follows:

Unit: RMB million, %

Item	31 December 2016		31 December 2015		31 December 2014	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated
1. Net capital base	287,880	280,783	259,482	253,120	212,719	208,280
1.1 Common equity tier-1 capital	221,001	218,511	203,950	202,013	179,356	177,853
1.2 Common equity tier-1 capital deductions	(2,125)	(5,488)	(2,115)	(5,479)	(2,085)	(4,955)
1.3 Net common equity tier-1 capital	218,876	213,023	201,835	196,534	177,271	172,898
1.4 Additional tier-1 capital	29,997	29,947	19,992	19,965	10	-
1.5 Additional tier-1 capital deductions	-	-	-	-	-	-
1.6 Net tier-1 capital	248,873	242,970	221,827	216,499	177,281	172,898
1.7 Tier-2 capital	39,007	37,813	37,655	36,621	35,438	35,382
1.8 Tier-2 capital deductions	-	-	-	-	-	-
2. Credit risk-weighted assets	2,490,988	2,435,979	2,032,386	1,993,875	1,766,454	1,744,119
3. Market risk-weighted assets	7,757	7,079	4,970	4,970	4,400	4,400
4. Operational risk-weighted assets	166,292	164,066	148,160	146,445	127,377	126,051
5. Total risk-weighted assets	2,665,037	2,607,124	2,185,516	2,145,290	1,898,231	1,874,570
6. Common equity tier-1 capital adequacy ratio	8.21	8.17	9.24	9.16	9.34	9.22
7. Tier-1 capital adequacy ratio	9.34	9.31	10.15	10.09	9.34	9.22
8. Capital adequacy ratio	10.80	10.77	11.87	11.80	11.21	11.11

Note:

1. All domestic and overseas branches, as well as invested financial institutions within the scope of consolidated management in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)*, should be included in the calculation of the consolidated capital adequacy ratios. The invested financial institutions within the scope of consolidated management include Everbright Financial Leasing Co., Ltd., Shaoshan Everbright Village Bank Co., Ltd., Jiangsu Huai'an Everbright Village Bank Co., Ltd. and CEB International Investment Co., Ltd.
2. Net common equity tier-1 net capital = Common equity tier-1 capital – Common equity tier-1 capital deductions; Net tier-1 capital = Net common equity tier-1 capital + Additional tier-1 capital – Additional tier-1 capital deductions; Net capital base = Net Tier-1 capital + Tier-2 capital – Tier-2 capital deductions.
3. Please refer to the website of the Bank for details of the capital composition.

## V. Leverage Ratio

The leverage ratio indicators of the Group calculated in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised) (released by the CBRC on 30 January 2015) are as follows:

Unit: RMB million, %

Item	31 December 2016	30 September 2016	30 June 2016	31 March 2016
Leverage ratio	5.44	5.65	5.30	5.68
Tier-1 capital adequacy ratio	9.34	9.73	9.36	9.95
Adjusted on-balance sheet and off-balance sheet assets	4,573,997	4,360,389	4,298,614	4,060,388

Please refer to “Unaudited Supplementary Financial Information” for details of leverage ratio.

## VI. Liquidity Coverage Ratio

Please refer to “Unaudited Supplementary Financial Information” for details.



## **VI. Business Overview of the Bank**

### **I. Economic, Financial and Regulatory Environments during the Reporting Period**

In 2016, the growth in world economy and trade has been depressed with the growing volatility in global financial market, deglobalisation and protectionism are coming to rise and geopolitical uncertainties are increasing.

China maintained its economic growth within a reasonable range. With an annual GDP growth rate of 6.7%, China outpaced most major economies all around the world. Continued advances were made in reform and opening up. Economic structure adjustment was stepped up. New drivers of growth gained strength.

With the prudent monetary policy, the liquidity of China's banking system was reasonably adequate. The reform of interest rate and exchange rate marketization has been further pushed forward. The inclusion of Renminbi in the SDR currency basket has officially come into force. With the macro-prudential policy framework further improved, the dynamic adjustment mechanism of differentiated reserve requirement ratios has been upgraded into the macro-prudential assessment (MPA).

Regulatory reform and innovation have been continuously deepened. Establishment of private banks and consumer finance company is normalized. The pilot scheme of investment-loan linkage business has smoothly progressed. Market-driven debt-to-equity swap has been launched. Special project on the rectification of Internet financial risks has been carried out to promote the healthy and orderly development of Internet finance. Comprehensive risk management guidelines were issued to improve the capacities of comprehensive risk management among the banking institutions.

### **II. Industry Landscape and State of the Bank**

In 2016, China's banking industry achieved sound operation in general, credit risk management and control in key areas was enhanced and financial service for real economy continued to be strengthened.

The Bank was committed to the principle of making progress while keeping performance stable, paid more attention to the quality and efficiency of development, actively promoted structural adjustments and risk control, strengthened reform and innovation, enhanced the foundation and capacity building so as to promote the steady and healthy development of every business. Therefore the Bank achieved good operation performance for the year and gained more competitive advantages in the market as demonstrated by its well-recognized asset management, investment banking, E-banking and credit card businesses.

### III. Review of Main Work of the Bank

#### (1) Facilitation to the development of real economy

In response to the national structural reform in the supply side, great support is exerted to the “The Belt and Road” Initiative, the Beijing-Tianjin-Hebei Integration Initiative, and the development of the Yangtze River Economic Belt and credit resources are allocated to major development projects of the country, new type of urbanization, and strategic emerging industries. The Bank actively channeled more credit resources into under-developed sectors resulting in a continuous rapid growth of in small and micro business and agricultural loans and the realization of the request of “Three No-less indicators” and “One higher indicator” respectively. The bank also reduced its credit exposure to industries with overcapacity, which contributed to the continuous optimization of the customer structure.

#### (2) Firmly insisting on the bottom line of risk control

Comprehensive risk management framework was improved to strengthen the “Three Lines of Defense” and further enhance the risk management ability. Credit risk management was enhanced by launching a system of dedicated officers for examining and approving corporate loans and developing an online credit risk alert system. Coordinated liquidity management and liquidity limit assessment were strengthened and the annual liquidity risk management indicators were kept within a reasonable range. Monitoring and measurement of market risk were strengthened to keep various market risk indicators within limits. Development of internal control system and authorization management, prevention and control of information system risks, and origin control of reputation risk were strengthened to maintain a stability in operation.

#### (3) Emphasis on business interaction and cooperation

Firstly, on asset linkage, the Bank promoted the integration of traditional credit businesses with asset management, interbank operation, investment banking, leasing, and capital market operations. Secondly, in terms of liabilities, full-scale capital management is pushed forward by breaking the barrier of the ordinary deposits and market capital, effectively expanding the Bank’s sources of capital and controlling the cost of liabilities. Thirdly, in terms of Group business, the Bank took advantage of the CEB Group’s full licenses to actively engage with enterprises within the Group in businesses such as pay roll agent service, cross selling, asset custodian service, managing assets for customers, and interbank placement, etc.

#### (4) Unswerving deepening of reform

Performance orientation was strengthened and a sound performance assessment system was established to effectively motivate branches and staff. The Bank insisted on highlighting the role of branches as profit centres in operation to properly widen authorized operations in branches and adjust the assessment system of branches. The department assessment indicator system of the head office was improved by implementing the R-P Linkage Evaluation Assessment System (Customer Relation Management Department and Product Management Department) to push forward business interaction among departments and realize resources sharing. Reform of human resources was actively promoted to comprehensively optimize the staff grading system, apply competitive processes in talent selection, and cultivate internationalized talents to let more elites stand out.

#### (5) Continuous consolidation of operating foundation

A new five-year development plan has been formulated and a well-defined development strategy with more unique features drafted. A capital replenishment plan was successfully implemented with an issuance of RMB 10 billion worth of preference shares to support its sustainable development. More efforts were made in the establishment of branches and outlets by building 1 first-tier branch and 8 second-tier branches, 63 outlets. Foreign institution layout was speeded up with CEB International Investment Co., Ltd. starting operation, the Seoul branch opening for business, and the establishment of CEB (Europe) S.A. and CEB Luxembourg branch approved by the CBRC and at present being prepared. To build an integrated operating platform, establishment of a number of subsidiaries is being planned, which include credit cards, asset management, direct banking, information technology, and consumer finance. The establishment of online banking is accelerated to acquire clients from online channel with an aim to boost sales and profitability.

### IV. Analysis on Core Competitiveness

Parent company with a full range of financial licenses. As a key state-owned enterprise under the management of the central government, China Everbright Group owns the full range of financial licenses and has set up a platform for business collaboration and cooperation among the Bank and all other companies under the Group to provide cross-market comprehensive financial solutions to all clients.

Unified Sunshine brand. Upholding the value of “Sharing Sunshine and Innovating Lifestyle”, the Bank stepped up its brand building efforts to create the “Sunshine” brand series, whose favorable images and good reputations have forged the competitiveness of the brand.

Leading roles in some businesses sectors. As the first bank to launch wealth management products in China, the Bank has maintained its competitive advantages in wealth management and asset management business. The Bank’s investment banking business has enjoyed the first-mover advantage in the industry with the ability to provide comprehensive investment banking services to corporate customers. Its E-banking business has focused on the building of an open service system based on an open platform, which thus has developed into an industry leading business model.

Comprehensive risk management system. Based on the Basel III framework, the Bank established a comprehensive risk management system which covered all substantial risks. The Bank continued to build up the technology platform for economic capital management so as to improve its risk management capabilities with quantitative instruments.

Advanced IT management and independent IT R&D capabilities. As the first Chinese commercial bank to put in place “data centralization”, the Bank has led the industry in terms of its safe operation and maintenance and technology support capabilities. In recent years, the Bank has also set up a platform for independent IT R&D, which helps to enhance its independent IT R&D capability.

## **V. Other Information on Business Review of the Bank**

Certain information in relation to the Bank’s business review, which includes a discussion of the principal risks and their management, an analysis of the Bank’s performance using financial key performance indicators, particulars of important events affecting the Bank during the year, and an indication of likely future developments in the Bank’s business, can be found in the “Discussion and Analysis on Operation” of this annual report. In addition, discussions on the Bank’s environmental policies, the compliance with relevant laws and regulations which have a significant impact on the Bank, relationships with its key stakeholders, charity activities and permitted indemnity provisions are included in the “Significant Events” of this annual report.

## VII. Discussion and Analysis of Operations

### I. Overall operations of the Bank

During the reporting period, the Bank focused on the growth of core deposits and actively promoted lending business, while it strictly maintained the risk bottom line and broadened the sources of the capital, leading to a sound operating result. With the moderately fast growth of assets and liabilities and the continuously improved income structure, the Bank achieved the profit growth as anticipated, while all kinds of risks remained controllable and its capital strength was reinforced, which further improved the brand image.

#### (I) Fast growth of assets and liabilities as the foundation for improved profitability

As at the end of the reporting period, the total assets of the Group were RMB4,020,042 million, representing an increase of RMB852,332 million or 26.91% as compared with those at the end of the previous year. The balance of loans was RMB1,795,278 million, representing an increase of RMB281,735 million or 18.61% as compared with those at the end of the previous year. The total deposits were RMB2,120,887 million, increasing by RMB127,044 million or 6.37% as compared with the end of the previous year.

#### (II) Continuous growth of operating income and larger contribution of fee-based business

During the reporting period, operating income of the Group was RMB94,365 million, representing an increase of RMB1,001 million or 1.07% as compared with the previous year. Its operating expenses were RMB30,254 million, representing a year-on-year decrease of RMB2,100 million or 6.49%. Profit before tax was RMB40,180 million, a year-on-year increase of RMB822 million or 2.09%. Net profit was RMB30,388 million, representing a year-on-year increase of RMB811 million or 2.74%.

During the reporting period, net fee and commission income of the Group was RMB28,112 million, representing a year-on-year increase of RMB1,811 million or 6.89%, and became the main driver of operating income growth. The proportion of net fee and commission income to operating income reached 29.79%, representing a year-on-year increase of 1.62 percentage points. The Group's income structure has been further optimized.

#### (III) Asset quality remains relatively stable and overall risks controllable

As at the end of the reporting period, the Group's non-performing loans were RMB28,702 million, representing an increase of RMB4,327 million as compared with the end of the previous year. Non-performing loan ratio was 1.60%, decreasing by 0.01 percentage point as compared with the end of the previous year. Credit provision coverage ratio was 152.02%, decreasing by 4.37 percentage points as compared with the end of the previous year.

## (IV) Successful issuance of preference shares and continuous capital supplement

During the reporting period, the Bank successfully issued RMB10 billion worth of preference shares. As at the end of the reporting period, the capital adequacy ratio of the Group was 10.80%, tier-1 capital adequacy ratio was 9.34% while common equity tier-1 capital adequacy ratio was 8.21%, which all consistently meets the regulatory requirements.

**II. Income Statement Analysis**

## (I) Changes in items of Income Statement

Unit: RMB million

Item	2016	2015	Increase/ (Decrease)
Net interest income	65,288	66,459	(1,171)
Net fee and commission income	28,112	26,301	1,811
Net trading gains	223	335	(112)
Dividend income	5	4	1
Net (losses)/gains arising from investment securities	(261)	13	(274)
Net foreign exchange gains/(losses)	338	(72)	410
Other net operating income	660	324	336
Operating expenses	30,254	32,354	(2,100)
Impairment losses on assets	23,931	21,652	2,279
Profit before tax	40,180	39,358	822
Income tax	9,792	9,781	11
Net profit	30,388	29,577	811
<b>Net profit attributable to equity shareholders of the Bank</b>	<b>30,329</b>	<b>29,528</b>	<b>801</b>

## (II) Operating income

During the reporting period, operating income of the Group was RMB94,365 million, an increase of RMB1,001 million or 1.07% as compared with the previous year. The increase of operating income was mainly due to the increase of net fee and commission income. The proportion of net fee and commission income to total operating income was 29.79%, representing a year-on-year increase of 1.62 percentage points. The proportion of net interest income was 69.19%, representing a year-on-year decrease of 1.99 percentage points.

The following table sets out the composition and proportion of the Group's operating income:

Unit: %

Item	2016	2015
Net interest income	69.19	71.18
Net fee and commission income	29.79	28.17
Other income	1.02	0.65
<b>Operating income</b>	100.00	100.00

### (III) Net interest income

During the reporting period, the Group's net interest income was RMB65,288 million, representing a year-on-year decrease of RMB1,171 million or 1.76%. The decrease of net interest income was mainly attributable to a decrease in net interest margin.

The Group's net interest spread was 1.59%, representing a year-on-year decrease of 42 base points. Its net interest margin was 1.78%, representing a year-on-year decrease of 47 base points, mainly due to falling interest rates and the impact on interest income that taxes were separated from prices charged after the program of replacing business tax with value-added tax, the decline in the yields on various interest-earning assets was greater than that in the cost on interest bearing liabilities.

Unit: RMB million, %

Item	2016			2015		
	Average balance	Interest income/expense	Average yield/cost	Average balance	Interest income/expense	Average yield/cost
<b>Interest-earning assets</b>						
Loans and advances	1,701,422	77,702	4.57	1,424,267	82,545	5.80
Finance lease receivables	50,421	2,012	3.99	31,619	1,426	4.51
Investments	1,155,338	46,560	4.03	773,425	38,801	5.02
Deposits with the central bank	356,866	5,306	1.49	342,443	5,120	1.50
Placements and deposits with banks and other financial institutions	394,855	11,870	3.01	377,487	14,015	3.71
Total interest-earning assets	3,658,902	143,450	3.92	2,949,241	141,907	4.81
<b>Interest income</b>		143,450			141,907	
<b>Interest-bearing liabilities</b>						
Deposits from customers	2,091,143	41,451	1.98	1,874,760	47,538	2.54
Placements and deposits from banks and other financial institutions	915,773	25,412	2.77	668,367	21,340	3.19
Debt securities issued	345,449	11,299	3.27	154,641	6,570	4.25
Total interest-bearing liabilities	3,352,365	78,162	2.33	2,697,768	75,448	2.80

<b>Interest expense</b>		78,162			75,448	
<b>Net interest income</b>		65,288			66,459	
<b>Net interest spread</b>			1.59			2.01
<b>Net interest margin</b>			1.78			2.25

Note:

1. Net interest spread is the difference between average yield of total interest-earning assets and average cost of total interest-bearing liabilities;
2. Net interest margin is net interest income divided by the average balance of total interest-earning assets.

The following table sets forth the breakdown of changes in interest income and interest expense of the Group due to changes in business scale and interest rate.

Unit: RMB million

<b>Item</b>	<b>Volume</b>	<b>Interest rate</b>	<b>Changes in interest</b>
Loans and advances	12,657	(17,500)	(4,843)
Finance lease receivables	750	(164)	586
Investments	15,391	(7,632)	7,759
Deposits with the central bank	214	(28)	186
Placements and deposits with banks and other financial institutions	522	(2,667)	(2,145)
Interest-earning assets	27,823	(26,280)	1,543
<b>Changes in interest income</b>			1,543
Deposits from customers	4,289	(10,376)	(6,087)
Placements and deposits from banks and other financial institutions	6,865	(2,793)	4,072
Debt securities issued	6,241	(1,512)	4,729
Interest-bearing liabilities	15,262	(12,548)	2,714
<b>Changes in interest expense</b>			2,714
<b>Net interest income</b>			(1,171)

#### (IV) Interest income

During the reporting period, the Group's interest income was RMB143,450 million, representing a year-on-year increase of RMB1,543 million or 1.09%. The increase in interest income was mainly due to the increase of the interest income from investments.

##### 1. Interest income from loans and advances

During the reporting period, the Group's interest income arising from loans and advances was RMB77,702 million, representing a year-on-year decrease of RMB4,843 million or 5.87%. The decrease in interest income arising from loans and advances was mainly due to the decrease in its average yields.



The following table sets forth the average balance, interest income, and average yield of major types of loans and advances of the Group:

Unit: RMB million, %

Item	2016			2015		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	1,035,211	47,906	4.63	860,646	51,387	5.97
Personal loans	591,441	27,035	4.57	490,269	28,199	5.75
Discounted bills	74,770	2,761	3.69	73,352	2,959	4.03
<b>Loans and advances</b>	<b>1,701,422</b>	<b>77,702</b>	<b>4.57</b>	<b>1,424,267</b>	<b>82,545</b>	<b>5.80</b>

## 2. Interest income from investments

During the reporting period, the Group's interest income from investments was RMB46,560 million, representing a year-on-year increase of RMB7,759 million or 20.00%.

## 3. Interest income from placements and deposits with banks and other financial institutions and financial assets held under resale agreements

During the reporting period, the Group's interest income from placements and deposits with banks and other financial institutions and financial assets held under resale agreements was RMB11,870 million, representing a year-on-year decrease of RMB2,145 million or 15.31%.

## (V) Interest expense

During the reporting period, the Group's interest expense was RMB78,162 million, representing a year-on-year increase of RMB2,714 million or 3.60%. The increase in interest expense was mainly due to the increase in the interest expense on debt securities issued.

### 1. Interest expense on deposits from customers

During the reporting period, interest expense on deposits from customers was RMB41,451 million, representing a year-on-year decrease of RMB6,087 million or 12.80%. The decrease in interest expense on deposits from customers was mainly due to the decrease in average cost of deposits from customers.

The following table sets forth the average balance, interest expense and average cost ratio of major types of deposits from customers of the Group:

Unit: RMB million, %

Item	2016			2015		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
Corporate deposits	1,625,568	32,035	1.97	1,444,628	35,815	2.48
Including: Corporate demand deposits	570,552	3,747	0.66	453,938	3,140	0.69
Corporate time deposits	1,055,016	28,288	2.68	990,690	32,675	3.30
Personal deposits	465,575	9,416	2.02	430,132	11,723	2.73
Including: Personal demand deposits	146,586	621	0.42	114,454	607	0.53
Personal time deposits	318,989	8,795	2.76	315,678	11,116	3.52
<b>Total deposits from customers</b>	<b>2,091,143</b>	<b>41,451</b>	<b>1.98</b>	<b>1,874,760</b>	<b>47,538</b>	<b>2.54</b>

## 2. Interest expense on placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements

During the reporting period, the interest expense on placements and deposits from banks and other financial institutions and financial assets sold under repurchase agreements of the Group was RMB25,412 million, representing a year-on-year increase of RMB4,072 million or 19.08%.

## 3. Interest expense on debt securities issued

During the reporting period, the Group's interest expense on debt securities issued was RMB11,299 million, representing a year-on-year increase of RMB4,729 million or 71.98%. The increase of interest expense on debt securities issued was due to the year-on-year increase of the average balance of debt securities issued.

## (VI) Net fee and commission income

During the reporting period, the Group's net fee and commission income was RMB28,112 million, representing a year-on-year increase of RMB1,811 million or 6.89%. The increase of net fee and commission income was mainly due to the significant increase in bank card service fees and agency service fees. The credit card business enhanced its marketing efforts to accelerate cardholder introduction, which pushed forward the Bank card service fees reaching a year-on-year increase of RMB1,721 million or 13.78%. Insurance agency and trust agency business were actively developed, achieving a year-on-year increase of RMB685 million in agency service fees, representing an increase of 58.60%.

The following table sets forth the major components of net fee and commission income of the Group:

Unit: RMB million

Item	2016	2015
<b>Fee and commission income</b>	29,932	27,745
Underwriting and advisory fees	1,442	1,512
Bank card service fees	14,212	12,491
Settlement and clearing fees	934	1,312
Wealth management service fees	7,472	7,253
Acceptance and guarantee fees	828	1,078
Agency service fees	1,854	1,169
Custody and other fiduciary business fees	1,614	1,740
Others	1,576	1,190
<b>Fee and commission expense</b>	(1,820)	(1,444)
<b>Net fee and commission income</b>	28,112	26,301

#### (VII) Other income

During the reporting period, the Group's other income was RMB965 million, representing a year-on-year increase of RMB361 million. The increase in other income was mainly due to net gain arising from net foreign exchange gains.

The following table sets forth the major components of other income:

Unit: RMB million

Item	2016	2015
Net trading gains	223	335
Dividend income	5	4
Net (losses)/gains arising from investment securities	(261)	13
Net foreign exchange gains/(losses)	338	(72)
Other net operating income	660	324
<b>Total</b>	965	604

#### (VIII) Operating expenses

During the reporting period, the Group's operating expenses were RMB30,254 million, representing a year-on-year decrease of RMB2,100 million or 6.49%. Cost-to-income ratio was 29.00%, representing a year-on-year increase of 1.95 percentage points. During the reporting period, staff costs, which was the largest proportion of operating expenses amounted to RMB15,171 million, representing a year-on-year increase of RMB903 million or 6.33%. The increase in staff costs was mainly due to increased branches and employees.

The following table sets forth the major components of operating expenses:

Unit: RMB million

Item	2016	2015
Staff costs	15,171	14,268
Premises and equipment expenses	4,740	4,490
Tax and surcharges	2,885	7,096
Others	7,458	6,500
<b>Total</b>	<b>30,254</b>	<b>32,354</b>

#### (IX) Impairment losses on assets

During the reporting period, impairment losses on assets of the Group were RMB23,931 million, representing a year-on-year increase of RMB2,279 million or 10.53%.

The following table sets forth the major components of impairment losses on assets:

Unit: RMB million

Item	2016	2015
Impairment losses on loans and advances	22,111	19,724
Impairment losses on finance lease receivables	572	411
Impairment losses on held-to-maturity investments	102	4
Impairment losses on available-for-sale financial assets	574	171
Impairment losses on debt securities classified as receivables	330	1,194
Others	242	148
<b>Total impairment losses on assets</b>	<b>23,931</b>	<b>21,652</b>

#### (X) Income tax

During the reporting period, income tax was RMB9,792 million, representing a year-on-year increase of RMB11 million or 0.11%.

### III. Balance Sheet Analysis

#### (I) Assets

As at the end of the reporting period, the Group's total assets reached RMB4,020,042 million, representing an increase of RMB852,332 million or 26.91% as compared with the end of the previous year, mainly due to the increase in loans and advances, investment in securities and other financial assets.

The following table sets forth the composition of total assets of the Group:

Unit: RMB million, %

Item	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Total loans and advances	1,795,278		1,513,543	
Provision for impairment of loans	(43,634)		(38,119)	
Net loans and advances	1,751,644	43.57	1,475,424	46.58
Finance lease receivables	55,560	1.38	38,735	1.22
Deposits with banks and other financial institutions	232,630	5.79	86,311	2.72
Cash and deposits with the central bank	381,620	9.49	326,735	10.31
Investment in securities and other financial assets	1,323,093	32.91	905,496	28.59
Placements with banks and other financial institutions, and financial assets held under resale agreements	193,305	4.81	285,406	9.01
Interests receivable	25,339	0.63	18,546	0.59
Fixed assets	14,228	0.35	12,646	0.40
Goodwill	1,281	0.03	1,281	0.04
Deferred tax assets	5,622	0.14	3,923	0.12
Other assets	35,720	0.90	13,207	0.42
<b>Total assets</b>	<b>4,020,042</b>	<b>100.00</b>	<b>3,167,710</b>	<b>100.00</b>

## 1. Loans and advances

As at the end of the reporting period, the Group's total loans and advances were RMB1,795,278 million, an increase of RMB281,735 million or 18.61%, as compared with the end of the previous year. The proportion of net loans and advances to total assets was 43.57%, representing a decrease of 3.01 percentage points as compared with the end of the previous year.

The following table sets forth the major components of the Group's loans and advances:

Unit: RMB million, %

Item	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Corporate loans	1,075,974	59.93	917,327	60.62
Personal loans	663,131	36.94	525,020	34.68
Discounted bills	56,173	3.13	71,196	4.70
<b>Total loans and advances</b>	<b>1,795,278</b>	<b>100.00</b>	<b>1,513,543</b>	<b>100.00</b>

## 2. Investment

As at the end of the reporting period, the Group's investment in securities and other financial assets was RMB1,323,093 million, an increase of RMB417,597 million as compared with the end

of the previous year, accounting for 32.91% of total assets, and representing an increase of 4.32 percentage points as compared with the end of the previous year.

The following table sets forth the major components of the Group's investment in securities and other financial assets:

Unit: RMB million, %

Item	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	7,834	0.59	5,637	0.62
Positive fair value of derivatives	4,950	0.37	1,625	0.18
Available-for-sale financial assets	425,131	32.13	222,495	24.57
Held-to-maturity investments	257,500	19.46	152,312	16.82
Debt securities classified as receivables	627,678	47.45	523,427	57.81
<b>Total investment in securities and other financial assets</b>	<b>1,323,093</b>	<b>100.00</b>	<b>905,496</b>	<b>100.00</b>

### 3. Types and amounts of financial bonds held

Unit: RMB million,%

Item	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	1,861	1.63	1,419	2.13
Available-for-sale financial assets	54,146	47.53	47,331	71.24
Held-to-maturity investments	57,920	50.84	17,690	26.63
<b>Total</b>	<b>113,927</b>	<b>100.00</b>	<b>66,440</b>	<b>100.00</b>

### 4. Top 10 financial bonds held in scale

Unit: RMB million,%

Name of bonds	Nominal value	Current interest rate	Expiring date	Provision for impairment Losses
Bond 1	2,760	3.80	2036-01-25	-
Bond 2	2,290	3.95	2031-02-26	-
Bond 3	1,200	2.95	2019-10-28	-
Bond 4	1,160	4.23	2021-11-05	-
Bond 5	1,070	5-day average of 3-month Shibor-0.20	2018-06-09	-
Bond 6	1,050	4.04	2019-07-22	-
Bond 7	1,050	One-year time deposit interest rate+0.70	2019-09-23	-
Bond 8	1,030	3.32	2018-09-15	-
Bond 9	1,000	3.23	2017-02-06	-
Bond 10	1,000	3.22	2017-05-23	-

## 5. Goodwill

The cost of the Group's goodwill was RMB6,019 million. As at the end of the reporting period, the provision for impairment losses on goodwill was RMB4,738 million, and the carrying value of goodwill was RMB1,281 million, which was the same as that at the end of the previous year.

6. As at the end of the reporting period, there was no seizure, attachment, freezing or mortgage or pledge of the Bank's principal assets.

## (II) Liabilities

As at the end of the reporting period, the Group's total liabilities reached RMB3,768,974 million, an increase of RMB825,311 million or 28.04% as compared with the end of the previous year. The increase in total liabilities was mainly due to the increase of deposits from customers, debt securities issued and deposits from banks and other financial institutions.

The following table sets forth the components of the Group's total liabilities:

Unit: RMB million, %

Item	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Due to the central bank	187,000	4.96	14,840	0.50
Deposits from customers	2,120,887	56.27	1,993,843	67.73
Deposits from banks and other financial institutions	830,354	22.03	541,066	18.38
Placements from banks and other financial institutions, and financial assets sold under repurchase agreements	136,696	3.63	119,178	4.05
Negative fair value of derivatives	4,368	0.12	1,391	0.05
Accrued staff costs	7,776	0.21	11,217	0.38
Taxes payable	4,501	0.12	6,392	0.22
Interests payable	33,576	0.89	30,612	1.04
Debt securities issued	412,500	10.94	210,061	7.14
Other liabilities	31,316	0.83	15,063	0.51
<b>Total liabilities</b>	<b>3,768,974</b>	<b>100.00</b>	<b>2,943,663</b>	<b>100.00</b>

Note: Deposits from customers include structured deposits measured at fair value as specified, same hereinafter.

As at the end of the reporting period, the balance of the Group's deposits from customers reached RMB2,120,887 million, representing an increase of RMB127,044 million or 6.37%, as compared with the end of the previous year.

The following table sets forth the components of the Group' deposits from customers:

Unit: RMB million, %

Item	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Corporate deposits	1,653,200	77.95	1,544,053	77.44
Including: Corporate demand deposits	656,760	30.97	515,929	25.88
Corporate time deposits	996,440	46.98	1,028,124	51.56
Personal deposits	359,660	16.96	339,125	17.01
Including: Personal demand deposits	183,856	8.67	145,561	7.30
Personal time deposits	175,804	8.29	193,564	9.71
Other deposits	108,027	5.09	110,665	5.55
<b>Total deposits from customers</b>	<b>2,120,887</b>	<b>100.00</b>	<b>1,993,843</b>	<b>100.00</b>

### (III) Equity of shareholders

As at the end of the reporting period, the equity attributable to equity shareholders of the Bank was RMB250,455 million, representing an increase of RMB26,962 million as compared with the end of the previous year. It was mainly due to (i) the increase of net profit attributable to equity shareholders of the Bank by RMB30,329 million; (ii) the increase of equity by RMB9,982 million due to the issuance of preference shares; (iii) the decrease of equity by RMB9,929 million due to the distribution of dividend.

The following table sets forth the composition of the equity attributable to equity shareholders of the Bank:

Unit: RMB million

Item	31 December 2016	31 December 2015
Share capital	46,679	46,679
Other equity instrument	29,947	19,965
Capital reserve	33,365	33,365
Other comprehensive income	509	3,929
Surplus reserve	17,951	14,964
General reserve	51,447	40,271
Retained earnings	70,557	64,320
Total equity attributable to equity shareholders of the Bank	250,455	223,493
Non-controlling interests	613	554
<b>Total equity</b>	<b>251,068</b>	<b>224,047</b>

### (IV) Off-balance sheet items

The Group's off-balance sheet items are mainly credit commitments, including loan and credit card commitments, acceptances, letters of guarantee, letters of credit and guarantees. As at the end of the reporting period, the total amount of credit commitments was RMB702,117 million,



representing a decrease of RMB615 million as compared with that as at the end of the previous year.

The following table sets forth the composition of Group's credit commitments:

Unit: RMB million

Item	31 December 2016	31 December 2015
Loan and credit card commitments	158,477	128,389
Acceptances	401,420	449,385
Letters of guarantee	81,424	61,704
Letters of credit	60,611	63,069
Guarantees	185	185
Total	702,117	702,732

#### IV. Cash Flow Analysis

Net cash inflow generated from the Group's operating activities was RMB349,679 million, of which cash inflow generated from operating activities was RMB76,125 million; cash outflow generated from operating assets was RMB319,799 million; cash inflow generated from operating liabilities was RMB593,353 million.

Net cash outflow from investing activities was RMB423,325 million, of which cash inflow generated from disposal and redemption of investments was RMB470,303 million; cash outflow generated from activities including payments on acquisition of investments was RMB890,635 million.

Net cash inflow from financing activities was RMB191,134 million, of which cash inflow generated from the issuance of bonds was RMB202,440 million; cash inflow generated from preference shares issued was RMB9,982 million.

#### V. Analysis of Loan Quality

##### (I) Distribution of loans by industry

During the reporting period, by focusing on the target of economic restructuring, transforming and upgrading, the Bank proactively adjusted its credit portfolio by industry, and as a result, the proportion of its loans to manufacturing, real estate, wholesale and retail trade reduced while the loans to livelihood and public utility sectors rose.

The following table sets forth the distribution of Group's loans by industry:

Unit: RMB million, %

Item	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Manufacturing	235,514	21.89	246,140	26.83
Water, environment and public utility management	160,657	14.93	70,864	7.72
Real estate	126,717	11.78	143,428	15.64
Wholesale and retail trade	112,165	10.42	123,907	13.51
Leasing and commercial services	95,554	8.88	54,119	5.90
Transportation, storage and postal services	92,260	8.57	75,108	8.19
Construction	62,480	5.81	50,084	5.46
Finance	51,275	4.77	28,592	3.12
Production and supply of power, gas and water	34,201	3.18	26,349	2.87
Mining	28,473	2.65	31,416	3.42
Others (note)	76,678	7.12	67,320	7.34
Subtotal of corporate loans	1,075,974	100.00	917,327	100.00
Personal loans	663,131	-	525,020	-
Discounted bills	56,173	-	71,196	-
<b>Gross loans and advances</b>	<b>1,795,278</b>	<b>-</b>	<b>1,513,543</b>	<b>-</b>

Note: "Others" consist of agriculture, forestry, animal husbandry and fishery; accommodation and catering; public administration and social organizations; information transmission, computer services and software; health, social security and social welfare; resident services and other services; scientific research, technical services and geological prospecting; culture, sports and recreation; education etc.

## (II) Distribution of loans by region

The distribution of loans by region was relatively stable leading to a balanced regional distribution structure.

The following table sets forth the distribution of Group's loans by region:

Unit: RMB million, %

Region	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Yangtze River Delta	352,631	19.64	301,904	19.95
Pearl River Delta	213,533	11.89	191,858	12.68
Bohai Rim	298,715	16.64	265,918	17.57
Central	303,996	16.93	230,898	15.25
Western	260,592	14.52	229,682	15.18
Northeastern	109,300	6.09	96,047	6.35
Head Office	212,336	11.83	172,822	11.42
Overseas	44,175	2.46	24,414	1.60
<b>Gross loans and advances</b>	<b>1,795,278</b>	<b>100.00</b>	<b>1,513,543</b>	<b>100.00</b>

## (III) Types of loan security and their proportions

The percentage of guaranteed loans, mortgage loans and pledged loans combined accounted for 72.63%, and the remaining unsecured loans were mainly offered to customers with relatively high credit ratings.

The following table sets forth the types of loan security and their proportion of the Group:

Unit: RMB million, %

Item	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Unsecured loans	491,329	27.37	434,735	28.72
Guaranteed loans	391,427	21.80	314,118	20.75
Mortgage loans	695,272	38.73	585,530	38.69
Pledged loans	217,250	12.10	179,160	11.84
<b>Gross loans and advances</b>	<b>1,795,278</b>	<b>100.00</b>	<b>1,513,543</b>	<b>100.00</b>

## (IV) Top 10 loan customers

Unit: RMB million, %

Name	Industry	31 December 2016 Balance of loans	Proportion to total loans	Proportion to net capital
Borrower A	Manufacturing	6,824	0.38	2.37
Borrower B	Transportation, storage and postal services	5,874	0.33	2.04
Borrower C	Public administration and social organization	4,800	0.27	1.67
Borrower D	Finance	4,056	0.22	1.41
Borrower E	Water, environment and public utility management	3,780	0.21	1.31
Borrower F	Manufacturing	3,600	0.20	1.25
Borrower G	Real estate	3,510	0.20	1.22
Borrower H	Water, environment and public utility management	3,300	0.18	1.15
Borrower I	Transportation, storage and postal services	3,187	0.18	1.11
Borrower J	Transportation, storage and postal services	3,150	0.17	1.09
<b>Total amount</b>		<b>42,081</b>	<b>2.34</b>	<b>14.62</b>

Note:

1. The proportion of the balance of loans to net capital is calculated according to the relevant requirements of the CBRC.
2. There is no related-party relationship between top ten borrowers and the Bank.

## (V) Five-category loan classification

As at the end of the reporting period, due to some internal and external factors such as macro economy slowdown and structural adjustment, the Group's non-performing loans increased moderately. The balance of non-performing loans was RMB28,702 million, representing an increase of RMB4,327 million as compared with that as at the end of the previous year. Non-performing loan ratio was 1.60%, down by 0.01 percentage point as compared with that as at the end of the previous year.

The following table sets forth the five-category loan classification of the Group:

Unit: RMB million, %

Item	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Normal	1,698,723	94.62	1,422,656	94.00
Special mention	67,853	3.78	66,512	4.39
Substandard	11,367	0.63	11,109	0.73
Doubtful	14,078	0.79	10,572	0.70
Loss	3,257	0.18	2,694	0.18
Gross loans and advances	1,795,278	100.00	1,513,543	100.00
Performing loans	1,766,576	98.40	1,489,168	98.39
Non-performing loans	28,702	1.60	24,375	1.61

## (VI) Loan migration ratio

Unit: %

Item	2016	2015	Year-on-Year Changes as of year end	2014
Loan migration ratio of normal loans	3.31	4.27	-0.96 percentage point	4.08
Loan migration ratio of special mention loans	26.78	30.33	-3.55 percentage points	26.68
Loan migration ratio of substandard loans	62.17	86.57	-24.40 percentage points	64.04
Loan migration ratio of doubtful loans	25.66	24.98	+0.68 percentage point	28.77

## (VII) Restructured loans and overdue loans

## 1. Restructured loans

Unit: RMB million, %

Item	31 December 2016		31 December 2015	
	Balance	Proportion to total loans	Balance	Proportion to total loans
Restructured loans and advances	17,380	0.97	12,034	0.80
Including: Restructured loans and advances overdue for more than 90 days	1,240	0.07	4,202	0.28

2. Please refer to “Notes to the Consolidated Financial Statements” for details of overdue loans.

(VIII) Non-performing loans by business type

Unit: RMB million, %

Item	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Corporate loans	21,412	74.60	19,227	78.88
Personal loans	7,290	25.40	5,148	21.12
Discounted bills	-	-	-	-
<b>Total amount of non-performing loans</b>	<b>28,702</b>	<b>100.00</b>	<b>24,375</b>	<b>100.00</b>

(IX) Distribution of non-performing loans by region

During the reporting period, the Group’s non-performing loans in Western regions decreased whereas the non-performing loans in other regions increased.

The following table illustrates the geographic distributions of the non-performing loans of the Group:

Unit: RMB million, %

Region	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Yangtze River Delta	6,520	22.72	5,974	24.51
Pearl River Delta	4,663	16.25	4,357	17.87
Bohai Rim	3,666	12.77	2,104	8.63
Central	4,654	16.21	4,022	16.50
Western	4,599	16.02	4,914	20.16
Northeastern	1,259	4.39	699	2.87
Head Office	3,333	11.61	2,305	9.46
Overseas	8	0.03	-	-
<b>Total amount of non-performing loans</b>	<b>28,702</b>	<b>100.00</b>	<b>24,375</b>	<b>100.00</b>

(X) Distribution of non-performing loans by industry

As at the end of the reporting period, the Group’s non-performing loans were mainly from manufacturing and wholesale and retail trade.

The following table illustrates the industrial distributions of the non-performing loans of the Group:

Unit: RMB million, %

Item	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Manufacturing	10,310	35.91	7,253	29.75
Wholesale and retail trade	8,178	28.49	7,836	32.15
Real estate	220	0.77	1,096	4.50
Transportation, storage and postal services	220	0.77	45	0.18
Leasing and commercial services	77	0.27	139	0.57
Water, environment and public utility management	-	-	-	-
Construction	392	1.37	494	2.03
Mining	1,177	4.10	1,938	7.95
Production and supply of power, gas and water	40	0.14	-	-
Public administration and social organization	10	0.03	10	0.04
Others (note)	788	2.75	416	1.71
Subtotal of corporate loans	21,412	74.60	19,227	78.88
Personal loans	7,290	25.40	5,148	21.12
Discounted bills	-	-	-	-
<b>Total amount of non-performing loans</b>	<b>28,702</b>	<b>100.00</b>	<b>24,375</b>	<b>100.00</b>

Note: "Others" consist of agriculture, forestry, animal husbandry and fishery; accommodation and catering; finance; education; information transmission, computer services and software; scientific research, technical services and geological prospecting; health, social security and social welfare, etc.

#### (XI) Distribution of non-performing loans by guarantee type

Unit: RMB million, %

Item	31 December 2016		31 December 2015	
	Balance	Percentage	Balance	Percentage
Unsecured loans	6,425	22.38	4,568	18.74
Guaranteed loans	11,546	40.23	10,593	43.46
Mortgage loans	9,402	32.76	7,788	31.95
Pledged loans	1,329	4.63	1,426	5.85
<b>Total amount of non-performing loans</b>	<b>28,702</b>	<b>100.00</b>	<b>24,375</b>	<b>100.00</b>

#### (XII) Repossessed assets and provision for impairment

Unit: RMB million, %

Item	31 December 2016	31 December 2015
Reposessed assets	406	346
Of which: land, buildings and structures	406	346
Less: provision for impairment losses	(17)	(17)
Net value of reposessed assets	389	329

**(XIII) Provision for loan impairment and write-off**

The Group's provision for loan impairment losses includes provision for corporate loans, personal loans and discounted bills. The Group conducted impairment tests on the carrying value of credit assets on the balance sheet date, and provision for impairment losses would be recognized through profit or loss for the current period if there was objective evidence indicating that the credit assets were impaired.

The following table sets forth the changes in the provision for impairment losses of loans of the Group:

Unit: RMB million

Item	31 December 2016	31 December 2015
Balance at the beginning of the year	38,119	28,025
Charge for the year	22,798	20,071
Release for the year	(687)	(347)
Recoveries	747	334
Unwinding of discount (note)	(876)	(802)
Write-offs during the year	(5,632)	(5,579)
Disposal in the year	(10,835)	(3,583)
Balance at the end of the year	43,634	38,119

Note: It refers to cumulative interest income of impaired loans due to the subsequent increase in present value over time.

**(XIV) Major measures for non-performing assets management and write-off policies of bad debts**

The Bank improved asset quality management mechanism, strengthen the whole monitoring process, optimized the disposal process of non-performing assets, broadened disposal channels, made innovations in disposing non-performing assets and enhanced disposal effectiveness.

Pursuant to the requirements of the Ministry of Finance and regulatory authorities, the Bank further revised *Administrative Measures on Write-off of Bad Debts*, and reviewed the loss category of non-performing assets, updated the specific requirements of identification of bad debts and reinforced the daily management of written-off items. In accordance with the principle of "filing after witting-off", the Bank will continue to recover written-off items.

During the reporting period, the Bank recovered bad debts of RMB6,534 million, wrote off bad debts of RMB5,632 million and assignment of creditor's rights of RMB14,344 million.

**VI. Capital Adequacy Ratio**

Please refer to the "Key Accounting Data and Financial Indicators" for details.

## VII. Segment Performance

The Group divided its business into different segments by geographical areas and business lines for management purpose. Fund lending between different regional and business segments was conducted at an internal transfer price determined on the basis of market interest rate, and interest income and interest expenses among segments were recognized.

The following table lists the operating performance of the Group's various regional and business segments.

Please refer to "Notes to the Consolidated Financial Statements" for more details.

### (I) Performance by region

Unit: RMB million

Item	2016		2015	
	Operating Income	Profit before tax	Operating Income	Profit before tax
Yangtze River Delta	15,423	5,068	14,882	4,071
Pearl River Delta	9,563	1,655	9,715	1,407
Bohai Rim	13,599	5,435	15,200	6,397
Central	12,974	5,696	11,625	3,102
Western	8,865	2,631	9,244	418
Northeastern	4,509	1,558	4,714	1,722
Head Office	28,793	17,874	27,557	22,041
Overseas	639	263	427	200
<b>Total</b>	<b>94,365</b>	<b>40,180</b>	<b>93,364</b>	<b>39,358</b>

### (II) Performance by business segments

Unit: RMB million

Item	2016		2015	
	Operating income	Profit before tax	Operating income	Profit before tax
Corporate banking business	42,388	11,037	42,974	13,482
Retail banking business	29,479	10,376	27,537	7,997
Financial market business	22,337	18,728	22,701	17,791
Other business	161	39	152	88
<b>Total</b>	<b>94,365</b>	<b>40,180</b>	<b>93,364</b>	<b>39,358</b>



## VIII. Others

## (I) Changes in Major Financial Indicators and Reasons

Unit: RMB million, %

Item	31 December 2016	31 December 2015	Increase/ (Decrease)	Major reasons for change
Deposits with banks and other financial institutions	232,630	86,311	169.53	Increase in deposits with banks based on treasury position and changes in the market interest rate
Financial assets at fair value through profit or loss	7,834	5,637	38.97	Increase in bonds held for trading
Positive fair value of derivatives	4,950	1,625	204.62	Affected by changes in RMB exchange rate, the revaluation of some foreign exchange swaps increased
Financial assets held under resale agreements	67,000	153,045	-56.22	Decrease in purchase scale of financial assets held under resale agreements
Interests receivable	25,339	18,546	36.63	Increase in interests receivable
Finance lease receivables	55,560	38,735	43.44	Increase in scale of financial leasing business, and increase in financial leasing receivables
Available-for-sale financial assets	425,131	222,495	91.07	Increase in investment in available-for-sale financial assets
Held-to-maturity investments	257,500	152,312	69.06	Increase in held-to-maturity investments including treasury bonds and credit bonds
Deferred tax assets	5,622	3,923	43.31	Increase in deferred tax assets
Other assets	35,720	13,207	170.46	Increase in scale of precious metals
Due to the central bank	187,000	14,840	1,160.11	Increase in due to the central bank
Deposits from banks and other financial institutions	830,354	541,066	53.47	Increase in deposits with non-deposit financial institutions
Placements from banks and other financial institutions	95,501	60,305	58.36	Increase in scale of placement from banks based on fund position and changes in the market interest rate
Negative fair value of derivatives	4,368	1,391	214.02	Affected by changes in RMB exchange rate, the revaluation of some foreign exchange swaps decreased
Financial assets sold under repurchase agreements	41,195	58,873	-30.03	Decrease in financial assets sold under agreements to repurchase
Debt securities issued	412,500	210,061	96.37	Increase in interbank negotiable certificate of deposits
Other liabilities	31,316	15,063	107.90	Increase in funds pending clearance
Other equity instrument	29,947	19,965	50.00	Additional issuance of preference shares
Other comprehensive income	509	3,929	-87.05	Valuation losses from available-for-sale assets

Item	2016	2015	Increase/ (Decrease)	Major reasons for change
Net trading gains	223	335	-33.43	Increase in valuation losses from bonds held for trading
Net (losses)/gains arising from investment securities	(261)	13	-2,107.69	Loss from disposal of available-for-sale bonds
Net foreign exchange gains/(losses)	338	(72)	Not applicable	Increase in net foreign exchange gains due to the changes of exchange rate
Other net operating income	660	324	103.70	Increase in the operation of leasing business of subsidiaries and increase in damages for advancement of customer repayment
Other comprehensive income, net of tax	(3,420)	3,707	-192.26	Valuation losses from available-for-sale assets

## (II) Overdue and outstanding debts

During the reporting period, the Bank did not incur any overdue and outstanding debts.

## (III) Interests receivable and provision for bad debts

### 1. Change in on-balance sheet interests receivable

Unit: RMB million

Item	Balance at the beginning of the year	Increase in the year	Decrease in the year	Balance at the end of the year
On-balance sheet interests receivable	18,583	93,074	86,281	25,376

### 2. Provision for bad debt of interests receivable

Unit: RMB million

Item	31 December 2016	31 December 2015	Increase
Balance of provision for bad debt of interests receivable	37	37	-

## (IV) Other receivables and provision for bad debts

### 1. Change in other receivables

Unit: RMB million

Item	31 December 2016	31 December 2015	Increase
Other receivables	6,719	5,201	1,518

### 2. Provision for bad debt of other receivables

Unit: RMB million

Item	31 December 2016	31 December 2015	Increase
Balance of provision for bad debt of other receivables	557	535	22

## IX. Performance of Business Segments

### (I) Corporate Banking

#### 1. Corporate deposits and loans

The Bank continued to actively promote the growth of core corporate deposits and gradually reduced the costs of liabilities, which significantly optimized the deposit structures. The Bank strengthened business coordination, integrated its corporate banking products and resources and upgraded the comprehensive financial services, and optimized the credit investment target and actively implemented the national development strategy, focusing the credit resources on the national strategic focus areas, major projects and the construction of urbanization. It enhanced the risk management and controlled the total credit exposure to industries with overcapacity. As at the end of the reporting period, the balance of corporate deposits amounted to RMB1,658,846 million (including the corporate business related portion in other deposits), representing an increase of RMB111,039 million or 7.17%, as compared with that at the end of the previous year. Among the above, the core corporate deposits increased by 19.97%. The balance of the Bank's corporate loans amounted to RMB1,075,974 million, representing an increase of RMB158,647 million or 17.29%, as compared with that at the end of the previous year.

#### 2. Small and Micro Enterprise (SME) finance

The Bank explored ways to improve the system and mechanism for SME finance and strengthened its risk management in a comprehensive manner. It accelerated innovations in the business model and actively developed sci-tech finance and green finance. The Bank pushed forward innovation of SME products, and increased the level of professional expertise in management while continuing to optimize credit business process for SME clients with a credit line at RMB5 million or below to ensure sound and orderly development of SME business. According to the criteria for classifying SMEs jointly issued by the Ministry of Industry and Information Technology and three other ministries in 2011 and regulatory requirements of CBRC, the balance of the Bank's SME loans amounted to RMB340,970 million as at the end of the reporting period, representing an increase of RMB52,535 million or 18.21% as compared with that as at the end of the previous year. The number of SME clients was 249.9 thousand, representing a year-on-year increase of 77.2 thousand.

#### 3. Investment banking

The Bank actively provided a wide range of debt financing products. During the reporting period, the Bank served as a leading underwriter of 259 non-financial corporate debt financing instruments with a value of RMB195,078 million in aggregate, continuing to secure the Bank's comparative advantages in serving power, transportation, construction and construction material

industries etc.. The Bank actively expanded the business of issuing USD bonds for domestic companies in Hong Kong; actively carried out innovation in the asset securitization business and succeeded in issuing “2016 Wuhan Provident Fund (Phase I)”, mortgage loan asset-backed securities product, “Shanghai Junchuang Lease (Phase I)”, asset-backed securitization program and “2016 Gezhouba Trust Asset-backed Notes (Phase I)”, and completed the application for establishment of the first credit asset securitization products; increased the marketing efforts of M&A loan business. The Bank’s business mode covered various types of M&A, including purchase of existing equity, the subscription of new equity, the acquisition of assets and the undertaking of liabilities. The Bank also successfully carried out mergers and acquisitions in foreign markets.

#### 4. Trade banking

The Bank enhanced the marketing and product promotion of trade finance business in a better coordinated way by regarding trade finance as an integral part of corporate banking business. It expanded the international business and sped up the product innovation by launching some new types of letters of guarantee (L/G), such as L/G with separated applicant and the guaranteed and L/G for non-bank institutions. The Bank optimized the structure of trade finance business and increased the scale of on-balance-sheet and off-balance-sheet trade finance while ensuring the asset quality. It actively promoted the business related to the Pilot Free Trade Zones in China, and was determined to set up a bank-wide free trade business platform. It also strengthened the business background examination and the compliance efforts of foreign exchange business so as to achieve a sustainable and healthy business growth. At the end of the reporting period, the balance of the on-balance-sheet and off-balance-sheet trade finance combined (excluding acceptances) increased by 14.81% as compared with that at the end of last year.

#### (II) Retail banking business

##### 1. Personal deposits

The Bank actively expanded the core deposits of personal banking and continued to optimize the structure of deposits. It launched some joint projects and achieved synergy from the collaboration between the corporate banking and the retail banking business lines and from the utilization of various business channels. The Bank held some working skill competition to improve standard operations of banking offices, which enhanced the business operation foundation. Seizing the opportunities of Chinese government’s efforts to transform shanty areas and the urbanization drive, the Bank successfully launched “one-stop service” for shanty area transformation projects, which increased both the scale and the profit of the personal deposits business. As at the end of the reporting period, the balance of personal deposits amounted to RMB462,041 million (including the retail business related deposits in other deposits), representing an increase of RMB16,005 million or 3.59% from that as at the end of the previous year, among which the core deposits of personal banking accounted for RMB300,300 million, up by RMB33,849 million or 12.70% from the end of the previous year. The proportion of core deposits continued to increase.

##### 2. Personal loan business

The personal loan business of the Bank focused on customer needs and the Bank provided a wide range of products and convenient quality services as a practice of inclusive finance. It supported the residents' demand for rational housing loans, consumption upgrades and business operation. With the aid of the big data and the Internet technology, the Bank developed the standard e-channel self-service loan, which provided innovative experience of small-amount consumer finance. The Bank strictly defended the bottom line of risk control and maintained a stable quality of its personal loans. As at the end of the reporting period, the balance of personal loans (excluding credit card loans) amounted to RMB450,805 million, an increase of RMB98,597 million or 27.99% from that as at the end of the previous year. The volume of personal loans granted by the Bank in 2016 was RMB233,801 million, up by RMB68,656 million or 41.57% from that as at the end of the previous year.

### 3. Private banking business

By regarding the mid-to-high end customers as its strategic target, the Bank sped up the building of wealth management and private banking business. The Bank set up an open product platform through internal collaboration and external integration. The Bank implemented the customer segmentation, improved customer experience so as to establish a system of differentiated services. The Bank carried out precision marketing activities with the support of big data and improved the execution of its team. The Bank launched a "Family Office" private banking business, providing one-stop solutions for the comprehensive needs of private banking clients. As at the end of the reporting period, the Bank had 28,213 private banking customers, representing an increase of 3,963 customers or 16.34% from that as at the end of the previous year. The total assets under management of its private banking business amounted to RMB257,965 million, up by RMB29,524 million or 12.92% from that as at the end of the previous year.

### 4. Bank card business

#### (1) Debit card

Focusing on the ten areas of people's daily life such as "medical service, dining, housing, traveling and tourism, education, entertainment, health, safety and beauty", the Bank made some innovation to its debit card business and continued to promote ETC projects to assist the residents to travel. The Bank launched the Payment Card which achieved the preferential treatment for the payroll clients and the re-upgrade of financial service. The Bank set up the "Internet + Medical" innovative mobile payment platform to achieve the online docking mobile payment of health insurance accounts and bank accounts. The Bank launched a new function with which the client can pay a small amount online through a bank card without using password, providing convenient and secure payment services. As at the end of the reporting period, the accumulated number of debit cards issued by the Bank reached 58.46 million, including 3.95 million new cards issued in the year.

#### (2) Credit card business

The Bank promoted the development of credit card business development with innovation. It worked with enterprises such as Jingdong and Youku to develop cross-sector innovative credit cards,

in order to build a multi-dimensional product system under the “Internet+” scenarios. In line with consumer scenarios, the Bank upgraded the credit card APP of CEB to actively expand into the mobile finance business. With the help of third-party data resources and big data technology, the Bank created a precision marketing system to expand the customer base. Relying on artificial intelligence and cloud computing technology, the Bank built a big data distribution (Hadoop) integrated platform for managing risk to achieve intelligent and personalized risk control. As at the end of the reporting period, 7,625.3 thousand new credit cards were issued by the Bank with the total number of credit cards reaching 35,958.7 thousand. The accumulated transactions volume during the reporting period was RMB1,277,387 million, up by 27.30% over last year. The overdraft balance (excluding the payment adjustment to transitional account) amounted to RMB214,213 million, up by 22.41% over last year. The overdue rate for bills past due over 180 days was 0.82%, where the risk remained controllable.

## 5. E-banking

In line with the concept of “openness, cooperation and win-win”, the Bank promoted the e-banking business in an innovative way and achieved an overall and rapid development of the whole business. With the integration of internal and external electronic channels and advantages of online and offline integration, the Bank launched, among others, the making of 6 key businesses, namely “Sunshine Direct Bank”, “Cloud Fee Payment”, “Cloud Payment”, “E-Commerce”, “E-Wealth Management” and “E-Financing”. The Bank enhanced the building of corporate and personal business channels and strengthened refined management and intelligent services, fully enhancing customer service capabilities. The brand influence of its e-banking business was significantly improved and the Bank received 20 major industrial awards. As at the end of the reporting period, the Bank had 26.9135 million mobile banking customers, 24.51 million retail e-banking customers, 16.2586 million electronic payment customers, 18.5489 million customers for WeChat banking, 358.2 thousand online corporate banking clients. The on-line direct bank had 4.6732 million clients since starting business. There were over 1,000 payment business on “Cloud Payment” platform, with the total number of transactions reaching 230 million. This platform became the biggest open-ended on-line fee payment platform in China. Two types of consumer loans were provided via “E-Financing” channel, one of which was an on-line application credit loan based on personal provident fund data and the other was micro loan products guaranteed by insurance. The relevant loan amount in two months exceeded RMB600 million.

## (III) Financial market and interbank business

### 1. Financial market business

The Bank continuously strengthened its capacities in treasury management and actively issued inter-bank CDs. The Bank has steadily expanded precious metal sector and improved its fiduciary business. The Bank has reformed its capacities in the credit bond risk control effectively and strengthened its investment portfolio by investing in the government bonds and high-grade credit bonds. As at the end of 2016, the balance of bonds in proprietary account amounted to RMB485.024 billion, accounting for 12.07% of the Bank’s total assets, 54.18% of which were government bonds and local government bonds. In 2016 the Bank has cumulatively scored 21.31

trillion in RMB bonds settlement, which was ranked No. 2 among joint-stock commercial banks (by China Central Depository & Clearing Co., Ltd.).

## 2. Inter-bank business

Taking risk management and liquidity safety as top priority, the Bank adjusted its product structure and strengthened its refined management to steadily develop its inter-bank business. It promoted product innovation and further enriched the variety of interbank products. The Bank also continued to work with other banks in assets and liabilities business and vigorously expanded cooperation with non-banking financial institutions. The licensed operation for inter-bank business was strictly implemented in order to achieve the compliant and orderly business development. As at the end of the reporting period, the balance of the inter-bank deposits was RMB830,354 million and the balance of inter-bank assets amounted to RMB1,053,613 million.

## 3. Asset management

The Bank has made efforts in the asset management business to enhance the level of professionalism, strengthening the ability of asset allocation, and grasping the opportunity to increase investment. Wealth management products were better diversified thanks to the Bank's persistent work in innovations of business and optimization of its asset portfolio. The Bank continued to promote IT system construction and launched a full functional asset management system. The Bank improved the risk management system, actively promoted divisional reform and achieved a steady business growth. As at the end of the reporting period, the balance of wealth management products amounted to RMB1.36 trillion, up by 11.48 % from that as at the end of the previous year. The issuance of wealth management products for the whole year amounted to RMB3.95 trillion, up by RMB0.87 trillion or 28.25% from that as at the end of the previous year. All products under "Sunshine Wealth Management" brand were honored upon maturity, while the risk of outstanding wealth management products was at a normal level.

## 4. Asset custodian services

The development of the asset custodian business was targeted at "Expanding market, strengthening innovation and enhancing service". With continuous efforts in marketing, the Bank's insurance fund investment custody business was ranked forefront among the joint-stock commercial banks in China. The Bank also extended its product line by starting services such as entrusted investment business custody, private equity funds custody and outsourcing business. A new generation of custody system was upgraded to build an automated and intelligent custody business platform and enhance market service capabilities. As at the end of the reporting period, the income generated from the Bank's custody business amounted to RMB1,507 million and the custody assets reached RMB4,432,619 million, increasing by 31.45% compared to the previous year, reaching a record high.

## X. Business Innovation

The Bank vigorously promoted the innovation of products and services in key business sectors

such as corporate banking, retail banking, and Internet financing. The corporate banking business line promoted the integration of traditional credit and capital management, inter-bank, investment banking, leasing, capital and other services to enhance the comprehensive financial services. As the main underwriter, the Bank successfully issued “Wuhan Housing Provident Fund” (Phase I), mortgage loan asset-backed securities, which was the first deal in 2016 in the interbank market of China. In terms of retail banking, it launched a "Family Office" private bank business, providing one-stop solutions for the comprehensive needs of private banking clients. It provides an innovative intelligence distribution service model, featuring the electronic, intelligent and automated sales of products on an agent basis. It successfully launched the business model of “one-stop service” for shanty town transformation, with a size of relocation of 100,000 residents. In terms of internet finance, the Bank launched “E-Crowd-funding”, an on-line wealth management product and “Yunnan Goujingcai”, the first electronic business platform at the provincial level under a mode of bank-government cooperation. The Bank also upgraded “Sunshine Bank”, a direct bank. During the reporting period, the Bank won a number of awards for innovation.

## **XI. Information Technology**

The Bank’s operation remained safe and sound with no material accidents occurred throughout the year, ranking the top of joint-stock commercial banks in the CBRC Information Supervision Rating.

The Bank successively completed the construction of the following systems, including the New Fund Trusteeship System, Customer Line Management System, Mobile Payment System, Internet Financing System, Overseas Innovative Banking System, Overseas Trading & Finance System, phase II of Sunshine Asset Management System and Cross-border Inter-bank Payment System. The application of new technologies was continuously explored, such as cloud computing, big data, block chain, based on which the Bank constructed the Intermediary Business Cloud Platform, Cash Management Cloud System, Big Data Application System and Charity Donation Platform. The Bank actively carried out the construction of scientific and technological innovation mechanism, launching innovative projects such as the Face Recognition System, CEB Insight System, Health Insurance Mobile Payment Platform and Staff Palm Pilot. In 2016, the Bank made outstanding achievements in the People's Bank of China Science and Technology Development Award with one project winning the first prize and two projects winning the second prize. A number of projects also won major awards from the Ministry of Industry and Information Technology and the CBRC.

## **XII. Human Resources Management**

The Bank has thoroughly implemented the requirements of the reform of the banking system and mechanism, established and improved the long-term mechanism, strengthened the building of the contingent of cadres and performed functions of supervising the cadres. The Bank increased efforts in the introduction and reserves of various types of talents and constantly consolidated the basis of talents. The Bank promoted the optimization of staff grading system reform and the "clarification of the job description, personnel allocation and positioning" works of the Head Office, improving the organizational performance appraisal system and individual performance appraisal,



as well as enhancing the effectiveness of the assessment incentive mechanism. The Bank reasonably allocated personnel costs, optimized the remuneration and welfare together with other basic systems. It enhanced the training system in a systematic and normative way and carried out various types of training with focus and at all levels, actively developing new training channels. It continuously strengthened the management of assigned personnel, strengthening the key section of human resources in order to promote the healthy development of business.

### XIII. Investment Analysis

(I) As at the end of the reporting period, the balance of the Bank's long-term equity investment was RMB3,369 million, which was on a par with that of the previous year.

#### (II) Material equity investments

Unit: RMB ten thousand, ten thousand shares, %

Investment entity	Principle business	Investment Amount	Number of Shares	Shareholding percentage	Source of fund	Investment duration	Profit or Loss in the reporting period	Partner
Everbright Financial Leasing Co., Ltd.	Financial leasing	270,000	333,000	90	Equity Fund	Long-term	53,813	Wuhan New Harbor Construction and Investment Development Group Co., Ltd., Wuhan Rail Transit Construction Co., Ltd.
Shaoshan Everbright Village Bank Co., Ltd.	Commercial bank	10,500	10,500	70	Equity Fund	Long-term	1,069	Sany Group Co., Ltd., Changsha Tongcheng Holding Co., Ltd., Hunan Poly Real Estate Development Co., Ltd., Shaoshan City Construction Investment Company Limited
Jiangsu Huai'an Everbright Village Bank Co., Ltd.	Commercial bank	7,000	7,000	70	Equity Fund	Long-term	573	Jiangsu East Golden Fox Garment Co., Ltd., Huai'an Shuanglong Weiye Technology Co., Ltd., Jiangsu Taihua Pharmaceutical Company Limited, Nanjing Mengdu Tobacco Packing Co., Ltd.
CEB International Investment Co., Ltd.	Investment banking	HK\$ 600 million	-	100	Equity Fund	Long-term	HK\$-39.38 million	Nil
China UnionPay Co., Ltd.	Bank card inter-bank information exchange network	9,750	7,500	2.56	Equity Fund	Long-term	550,000	Other commercial banks

Note: The above equity investments are not subject to any litigation.

(III) The Bank had no material non-equity investment, and the Bank conducted bond investment in the ordinary course of its businesses. Please refer to the aforementioned for details.

(IV) Financial assets at fair value during the reporting period

The Bank held domestic and overseas bonds and financial derivative instruments measured at fair value in the ordinary course of its business. Please refer to “Notes to the Consolidated Financial Statements” for details.

**XIV. During the reporting period, there was no material disposal of equity interest of the Bank.**

**XV. Analysis of Major Companies in Which the Bank Held Equity**

(I) Everbright Financial Leasing Co., Ltd.

The company was established in May 2010 and engaged in financial leasing business. The company was registered in Wuhan City, Hubei Province with a registered capital of RMB3,700 million. During the reporting period, the company was mainly engaged in financial leasing business in relation to water, environment, public utility management, and transportation, the rapid development of aircraft leasing business, and positive exploration of the leasing business in transportation, tourism, and medicine and health care. As at the end of the reporting period, its total assets, net assets and net profit were RMB64,547 million, RMB5,209 million and RMB538 million, respectively.

(II) Shaoshan Everbright Village Bank Co., Ltd.

The village bank was established in September 2009 and engaged in deposit-taking, lending and other commercial banking services. It was registered in Shaoshan City, Hunan Province with a registered capital of RMB150 million. During the reporting period, the village bank continued to work hard to serve farmers, agriculture and rural areas and developed its micro finance business, which helped support the growth of county level economy by exploring ways of supporting rural economic development with its financial products and services. As at the end of the reporting period, its total assets, net assets, net profit were RMB860 million, RMB194 million, RMB10.69 million, respectively.

(III) Jiangsu Huai’an Everbright Village Bank Co., Ltd.

The village bank was established in February 2013 and engaged in deposit-taking, lending and other commercial banking services. It was registered in Huai’an City, Jiangsu Province with a registered capital of RMB100 million. During the reporting period, the village bank continued to serve farmers, agriculture and rural areas and, developed its micro finance business which achieved steady growth. As at the end of the reporting period, its total assets, net assets, net profit were RMB775 million, RMB112 million, RMB5.73 million, respectively.

(IV) CEB International Investment Corporation Limited.

The company was established in June 2015 and licensed in securities trading, securities consulting, financial consulting and asset management business. It was registered in Hong Kong with a registered capital of HKD600 million. During the reporting period, the company focused on developing investment banking business to raise fund for customers in the stock and bond market. As at the end of the reporting period, its total assets and net assets were HKD2,883 million and HKD519 million, respectively. During the reporting period, its net loss was HKD39.38 million

## **XVI. Special Purpose Entities Controlled by the Bank and Structured Products**

(I) There are no special purpose entities controlled by the Bank.

(II) The structured products whose equities are held by the Group but not recognized in the consolidated financial statements mainly include special asset management plans. Please refer to “Notes to the Consolidated Financial Statements” for details.

## **XVII. Risk Management**

### **(I) Credit Risk Management**

To continuously improve the overall risk management framework and optimize the risk management scheme, the Bank established three lines of defense in business, risk management and internal audit on the principle of “full range, whole process and all staff control”, and improved credit approval efficiency by implementing a “One-stop” approval process for corporate credit business with general risks. Credit Management of the key group clients was strengthened by establishing a Strategic Corporate Banking Department at the headquarter. Mechanism for investment decision-making in asset management, interbank financial market, business, treasury and investment banking business were improved to support the development of “Large-Assets” business. Credit Risk Alert System was put into operation, control over key sectors of the credit business was tightened, centralized registration of collaterals, inspection of tax receipts and signed underwriting formalities were tightened. Comprehensive evaluation was conducted on the operation of the corporate credit management system.

The Bank spared no efforts to optimize credit structure through credit policy orientation, and dynamically adjust credit policies on China’s Three Main Strategies and key development projects, by vigorously increasing loans to public management, highway, railway, urbanization construction as well as public utility sectors to support the finance of PPP projects. The Bank made progress in readjusting credit portfolio on a selective basis, continued to reduce credit granted to industries plagued with massive overcapacity, and exercised limit control over loans issued to enterprises in the commodity wholesale sector.

The all-round management system of asset quality was improved and the assessment and incentive mechanisms were optimized in order to recover overdue loans. In the meanwhile, policies were reviewed for promoting the restructuring and conversion of non-performing loans. The Bank also strengthened the recovery of non-performing loans and overdue loans, and stepped up efforts mitigating risks, while introducing diversified channels for bad-loan disposal.

Please refer to “Notes to the Consolidated Financial Statements” for more details on credit risk management of the Bank.

## (2) Liquidity Risk Management

The Bank insisted on a prudent and stable attitude towards the liquidity risk management policy with the risk management indicators maintained within a reasonable range and the market risk limits within a tolerable level. The Bank also paid close attention to change in Central Bank’s monetary policies and capital market and to make preventative arrangements in advance. Daily monitoring of liquidity risk limits and periodic liquidity stress testing were exercised. Internal fund transfer pricing was adjusted to achieve forward-looking orientation and coordination in business structures. Liability channels were diversified to enhance the stability of capital sources and filled the Bank’s liquidity gap. Liquidity risk points of new products and businesses were fully evaluated to take care of the domestic and overseas liquidity risks on/off-balance sheet and of converted both Renminbi and foreign currencies. Liquidity risk awareness was enhanced and an emergency drilling mechanism was set up to strengthen the capabilities of mitigating liquidity risks.

Please refer to “Notes to the Consolidated Financial Statements” for further details of liquidity risk management of the Bank.

## (3) Market Risk Management

The Bank continued to improve its market risk management mechanism, updated market risk policies, and optimized the decision-making mechanism for market-oriented business investment and the procedures of market risk management. The risk predictions on interest rate and exchange rate was enhanced and, mutual conversion between market risk, liquidity risk and credit risk was fully concerned. The Bank carried out dynamic monitoring on limits of interest rate risk and exchange rate risk as well as regular stress tests on market risk. It also strengthened the risk limit management, incorporating treasury management, interbank financial business, precious metal trading, investment banking and overseas branches into of the scheme of market risk limits management. It managed to launch the Data Market of Market Risk and pushed forward the building of the Market Risk Metering Engine in the aim of enhancing its abilities of integrating market risks information and its risk measuring capabilities.

Please refer to the “Notes to the Consolidated Financial Statements” for further details of market risk management of the Bank.

## (4) Operational Risk Management

The Bank continuously improved its operational risk management framework and system by establishing new operational LDC (Loss Data Collection) reporting standards, re-checking history loss events, re-setting Key Risk Index (KRI) and threshold value, improving the pertinence and sensitiveness of indexes, and setting up a timely warning, reminding, reporting and handling system to prevent the occurrence of material operational risks and incidents. On-site and off-site

inspections were strengthened by optimizing the alert models of unusual fund transactions by staff and clients and conducting special inspection of the standardization in the authorization of counter business and on-spot check of unusual behaviour of the staff. Key points were reorganized by formulating the *Thirty-Sixth Article on the Internal Control of Sub-branches and Outlets* to improve the standard of internal control and management. To enhance the standards of operational risk management in the counter business, the Bank promoted the use of electronic seals and accomplished the standardization of the counter business.

Please refer to “Notes to the Financial Statements” for further details of the operational risk management of the Bank.

#### (5) Compliance Risk Management

The Bank, through the implementation and integration of internal control and operational risk management, further improved the management efficiency. It continued to improve external judicial laws and regulation database and provided support for compliance operation of business departments and branches. The publication system of sale of wealth management products in outlets was established to strictly comply with the CBRC’s requirement of “Dual Record” and practically prevent illegal product selling. Compliance inspection and auditing were also exercised to strengthen the inspection of key and weak areas and promote the effective rectification of problems. Team building of compliance managers was further strengthened to enhance compliance risk management capacities of institutions.

#### (6) Reputation Risk Management

Regarding reputation risk as an important integral part of all-round risk management system, the Bank optimized the mechanism of reputation risk monitoring, pre-warning and emergency response to continuously improve management capacities and level. By means of training, emergency drilling and risk sorting, the Bank fostered a strong staff team and consolidated the foundation of relevant work. It took numerous reputation risk factors into full account concerning product design, business conducting and customer service.

Through regular noise analysis, optimization of services and management was promoted to better maintain the Bank’s reputation and image.

#### (7) Anti-money Laundering (AML) Management

The Bank reinforced the construction of internal control system by improving the guidance on anti-money laundering; launched the new anti-money laundering system and established lots of transaction monitoring models; constantly assessed the money laundering risk of financial products; enhanced due diligence necessary for high risk customers; and timely reported block and suspicious transaction data to authorities and carried out investigations according to the authorities’ requirements.

## XVIII. Outlook of the Bank

### (I) Competitive landscape and development trend of the industry

Chinese banking industry will push forward its transformation, strengthen financial services for key areas in economic society, support the supply-side structural reform and serve the real economy. They will also prevent and mitigate various risks and defend the bottom line of asset quality.

### (II) Development strategy of the Bank

The Bank will insist on reform and innovation, progress steadily, and strive to develop itself into a first class national joint-stock commercial banks with “scientific management mechanism, extraordinary performance, active market participation, outstanding features” in an aim to create greater values for its clients and shareholders.

Adhering to the development concepts of “Innovation, Harmony, Green, Openness and Sharing”, the Bank will speed up its strategic transformation, adjust and optimize the structure of client base, business, profits and channels in order to achieve the harmonious development of the three major business sectors, namely corporate banking, retail banking and financial market business. Firstly, by coordinating clients’ financial needs, the Bank intends to develop a comprehensive financial services platform with primary banking businesses and secondary non-banking financial businesses and build itself into a leading comprehensive financial services provider, transforming from a financial agency to a service agency. Secondly, it is to introduce a more flexible and marketized mechanism to consolidate, enhance existing advantages, strengthen development potential and participate in differentiated competition. Thirdly, it is to start with light assets and light outlets in promoting adjustments in business structure in order to develop itself into a capital-saving bank. Fourthly, it is to improve the standard of intelligent development and create “CEB in the Cyberspace” in order to adapt to the development trend of internet finance.

### (III) Operating plan

In 2017, the Bank will maintain a steady growth of business scale and optimize its business structure on the premise of capital control. The Bank will promote the growth of core deposits on the basis of liquidity improvement and expand multiply liabilities sources. By focusing on income growth, it will strength the management of interest margin and spread to enhance the comprehensive profitability, and will ensure a sound and continuous development of the Bank with the bottom line of security compliance. The Bank will strive to achieve a loan growth of approximately 15%, if there is no significant change in the current operating environment and regulatory policies. This operating plan does not constitute a performance commitment of the Bank to investors, who shall maintain sufficient risk awareness and understand the discrepancy between operating plan and performance commitment.

#### (IV) Capital demand plan

The Bank will continue to improve the capital management system, formulate capital plans and capital management policy based on the Bank's financial budget, strategic planning and expectation on economic development, and carry out regular review in accordance with the business development. The Bank will optimize the scale and structure of available capital, draw up a capital replenish plan, strengthen the endogenous type of capital replenishment mechanism and expand external replenishment channels. The Bank will implement counter-cyclical capital management and increase the scale of reserve capital under a medium stress scenario in order to smooth the influence of economic fluctuation and regulatory changes so as to realize sustainable development.

#### (V) Potential risks and counter measures

In 2017, Chinese banking industry will mainly face the following risks: internationally, world economic growth remains sluggish, there are many uncertainties about the policies of major economies and their spill-over effect. Domestically, China is at a crucial and challenging stage in its own development endeavors, the internet forces driving economic growth needs to be strengthened. In such a complicated operating environment, the credit risk pressure on commercial banks is obviously growing, and the Bank is facing increasing challenges towards its management of liquidity risk, market risk and operational risk.

Committed to the underlying principle of making progress while keeping performance stable, the Bank will focus on improving the quality and efficiency of development, hold up the bottom line of risk firmly, and strengthen comprehensive risk management and internal control. Priorities will be given to the following works: firstly, to promote sustainable and sound business development of the business through a comprehensive risk management framework and a sound risk management system; secondly, to continuously optimize the risk approval system, further consolidate loan approval and post-loan management, and tighten the new credit issuance; thirdly, to adjust the risk mitigation structure, strength the loan collection and risk mitigation and ensure a steady improvement of asset quality.

## VIII. Significant Events

### I. Formulation and Implementation of Profit Distribution Policy

#### (I) Profit distribution policy

In accordance with the profit distribution principle, specific policies and procedure of consideration stipulated in the Articles of Association of the Bank, the Bank shall prioritize cash dividends in profit distribution. Except for special situations, the profit to be distributed in cash each year shall be no less than 10% of the distributable profit of the year if both the profit for the year and accumulated undistributed profit are positive.

#### (II) The profit distribution plan for the year

Taking into consideration the interests of all shareholders, sustainable development of the Bank's business and the requirement of regulatory authorities on capital adequacy ratio, pursuant to *the Company Law of the People's Republic of China*, *Securities Law of the People's Republic of China* and other provisions and in accordance with relevant requirements of *the Articles of Association of the Bank*, the profit distribution plan for 2016 is proposed as follows:

1. RMB2,986,862.2 thousand which amounts to 10% of RMB29,868,621.8 thousand, the net profit at the Company's level in 2016, to be appropriated to the statutory surplus reserve fund.
2. RMB10,361,403.2 thousand to be appropriated to the general reserve in 2016 in accordance with relevant requirements of the Ministry of Finance.
3. A dividend of RMB1,060,000.0 thousand which was distributed to preference shareholders on 27 June 2016.
4. A cash dividend of RMB0.98 (before tax) per 10 shares, amounting to an aggregate of RMB4,574,551.3 thousand, to be distributed to all existing ordinary shareholders. The cash dividends will be denominated and declared in Renminbi, and distributed to shareholders of A shares in Renminbi, and distributed to shareholders of H shares in Hong Kong Dollar. The exchange rate for the calculation of actual distribution amount in Hong Kong Dollar is based on the average benchmark exchange rate of Renminbi against Hong Kong Dollar as published by the People's Bank of China one week preceding the date of the Annual General Meeting of the Bank (inclusive of the date of the general meeting).
5. No capital reserve shall be capitalized into share capital of the Company for 2016.
6. Retained profits to be used for replenishing capital to meet the regulatory requirements of capital adequacy ratios.



The above profit distribution plan is subject to the approval by the 2016 Annual General Meeting of the Bank.

The profit distribution plan for the year did not make any adjustment or amendments to the existing cash dividend policy of the Bank. The profit distribution plan complied with the *Articles of Association of the Bank*, which defines clear and definite standards and proportion for dividend distribution and complete decision-making procedures and mechanism. The Board of Directors and the Board of Supervisors discussed and considered the profit distribution plan and the Independent Non-Executive Directors performed their duties to safeguard the legitimate interests of medium and small shareholders and issued independent opinions on the rationality of the profit distribution plan. The above profit distribution plan will be subject to the Annual General Meeting of Shareholders where all of the ordinary shareholders including medium and small shareholders will be able to participate and express their views and demands. The Annual General Meeting of the Bank shall open the online voting, when the votes of medium and small shareholders in relation to the profit distribution plan will be counted separately as to fully protect the lawful rights of medium and small shareholders.

(III) Profit distribution of ordinary shares and cash dividend for the last three years (including the Reporting Period)

For 2016, the Bank intended to distribute a cash dividend of RMB0.98 (before tax) per 10 shares to all ordinary shareholders and will not implement the capitalization of capital reserves. For 2015, the Bank distributed a cash dividend of RMB1.90 (before tax) per 10 shares to all ordinary shareholders and did not implement any capitalization of capital reserves. For 2014, the Bank distributed a cash dividend of RMB1.86 (before tax) per 10 shares to all ordinary shareholders and did not implement any capitalization of capital reserves.

Unit: RMB million, %

Item	2016	2015	2014
Cash dividend	4,574.55	8,869.03	8,682.31
Proportion to net profit attributable to holders of ordinary shares of the listed company	15.63	30.04	30.06

## II. Important Undertakings and Performance of Undertakings Given by the Bank and the Bank's Actual Controllers, Controlling Shareholders or other Related Parties of the Bank

(I) According to the initial Plan for Non-public Issuance of Domestic Preference Shares, Everbright Group, the substantial shareholder of the Bank, undertook that it would not participate in the inquiry of the coupon rate of preference shares and would accept the coupon rate finally determined by the Bank and sponsor institutions (the lead underwriters) in accordance with the procedures and requirements of the CSRC. In August 2016, the Bank completed the issuance of the second tranche of the issuance of the Preference Shares. The number of shares issued was 100,000,000 shares, of which, 10 million shares were subscribed by Everbright Group. During the process of the issuance of the Preference Shares, Everbright Group did not violate the

aforementioned undertaking.

(II) During the Reporting Period, Everbright Group, the substantial shareholder of the Bank, undertook to increase the shareholding in the Bank when appropriate within three months since 15 July 2016. The number of shares of the increase was to be no less than 10 million shares. Upon the completion of such increase, the aggregated percentage of shareholding by Everbright Group and its subsidiaries would be lower than 30% of the total issued ordinary shares of the Bank. From 15 July to 15 October 2016, Everbright Group actually increased its holding by 129,143,382 A shares and 0 H shares of the Bank in total, representing 0.28% of the total issued ordinary shares of the Bank, equaling to RMB497 million. Upon the completion of the increase of shareholding, Everbright Group and its subsidiaries held 13,355,232,402 A shares and 256,595,000 H shares of the Bank, in total 13,611,827,402 shares, representing 29.16% of the total issued ordinary shares of the Bank.

(III) CHI, a substantial shareholder of the Bank, undertook that as long as CHI is the controlling shareholder or actual controller of the Bank, CHI shall not be engaged in competitive business with the Bank. However, since CHI has been the investment arm of the Chinese government specialized in investing in banks and other financial institutions, the business of companies under CHI is not obligated with this undertaking. CHI's undertaking in this regard is effective for a permanent term. As at the end of the reporting period, there was no breach of undertakings given by CHI.

(IV) Pursuant to the relevant provisions of China Securities Regulatory Commission, to ensure the Bank shall effectively implement remedy measures in relation to the proposed public issuance of convertible bonds, all directors and senior management officers of the Bank promised to faithfully and diligently perform their duties, safeguard the legitimate rights and interests of the Bank and all shareholders, and made the following commitments:

1. No interests shall be transferred to other entities or individuals for free or in an unfair way, and not to jeopardize the interests of the Bank by other means;

2. They shall be thrifty, their work duty-related consumption shall be under restriction in strict compliance with the relevant requirements at the national, local and the Bank level, and refrain from over-consumption and extravagance and waste;

3. The assets of the Bank shall never be utilized in any investment or consumption activities irrelevant with the performance of their duties;

4. The remuneration system formulated by the Board or the Remuneration Committee shall be linked to the implementation of remedy measures for the return by the Bank;

5. If the Bank launches any equity incentive scheme in the future, the conditions for exercising its rights under the intended equity incentive scheme shall be linked to the implementation of remedy measures for the return.

On 17 March 2017, the Bank made a public issuance of A Shares convertible bonds of RMB30

billion. There had been no violation of the undertaking above by the Directors and Senior Management of the Bank.

As far as the Bank is aware, other than the above matters, there is no material undertakings given by the Bank and the Bank's shareholders, Directors, Supervisors, Senior Management or other related parties.

### **III. Reserve**

Please refer to "Consolidated Statement of Changes in Equity" for details about reserve change of the Bank.

### **IV. Fixed Assets**

Please refer to "Notes to Financial Statements" of the Bank for details about the change in fixed assets of the Bank as at the end of the reporting period.

### **V. Purchase, Sale or Repurchase of the Bank's Listed Securities**

During the reporting period, the Bank and its subsidiaries did not purchase, sell or repurchase any listed securities of the Bank.

### **VI. Pre-emptive Rights**

The Articles of Association of the Bank do not provide on pre-emptive rights, and shareholders of the Bank have not been granted any pre-emptive right.

### **VII. Retirement and Benefits**

Please refer to "Notes to Financial Statements" for details about the retirement benefits provided by the Bank to its employees.

### **VIII. Major Customers**

During the reporting period, revenue generated from the top 5 major customers of the Bank did not exceed 30% of the Bank's interest income and other operating income.

### **IX. Use of Capital by the Controlling Shareholders or Other Related Parties of the Bank for Non-operating Purposes**

During the reporting period, no capital of the Bank was used by controlling shareholders or other related parties for non-operating purposes. Ernst & Young Hua Ming LLP has issued a special audit opinion.

## **X. Changes in Accounting Policies**

During the reporting period, the Bank did not have any changes in its accounting policies.

## **XI. Application of New Auditing Standards**

The Bank has adopted the new auditing and reporting standards since 1 January 2017, for details about the “Key Audit Matters”, please refer to the financial audit report issued by Ernst & Young Hua Ming LLP.

## **XII. Appointment and Resignation of Accounting Firm**

### **(I) Appointment of auditors for auditing the annual financial statements of 2016**

On 19 November 2015, the Bank held the First Extraordinary General Meeting of Shareholders of 2015, in which Ernst & Young Hua Ming LLP and Ernst & Young were appointed by the Bank as the domestic and overseas auditors for 2016 respectively. Liang Chengjie and Gu Jun (domestic only) were the authorized signatories for the audit report. The auditing fee payable was RMB6.23 million (inclusive of reimbursement and value-added tax). The length of their service terms is 1 year.

### **(II) Appointment of Internal Control Auditor**

On 19 November 2015, Ernst & Young Hua Ming LLP was approved as the internal control auditor of 2016 at the First Extraordinary General Meeting of Shareholders of 2015 and the auditing fee payable to Ernst & Young Hua Ming LLP was RMB0.60 million (inclusive of reimbursement and value-added tax).

## **XIII. Matters Concerning Bankruptcy or Reorganization**

During the reporting period, no bankruptcy or reorganization took place in the Bank.

## **XIV. Material Litigation and Arbitration Matters**

During the reporting period, the Bank was not involved in any material litigation or arbitration.

## **XV. Penalty Imposed on the Bank and the Bank’s Directors, Supervisors, Senior Management, Controlling Shareholders and the Actual Controllers**

During the reporting period, none of the Bank, its Directors, Supervisors, Senior Management, controlling shareholders and actual controllers was subject to any investigation by competent authorities, any mandatory measures by judicial authorities or disciplinary departments, transferal to judicial authorities, criminal proceedings, investigation, administrative penalty or circulation of criticism by the CSRC, or public censure by any stock exchange, or any penalty with significant impact on the Bank’s operation imposed by any other regulatory body.

## **XVI. Credibility of the Bank, the Controlling Shareholders and Actual Controllers**

During the reporting period, the Bank, the controlling shareholders and actual controllers did not fail to comply with effective court judgments or repay significant matured debts.

## **XVII. Implementation of Stock Incentive Plan and Employee Stock Ownership Plan**

As at the end of reporting period, the Bank did not implement any stock incentive plan and the employee stock ownership plan.

## **XVIII. Matters Concerning Connected Transactions of the Bank under Hong Kong Listing Rules**

In accordance with the Hong Kong Listing Rules, the transactions between the Bank and its connected persons (as defined in the Hong Kong Listing Rules) constitute connected transactions of the Bank. The Bank monitors and manages these connected transactions in accordance with the Hong Kong Listing Rules.

### **(I) Non-exempt connected transactions**

#### **1. Everbright Group's subscription of domestic preference shares**

On 31 October 2014, as approved by the Board of Directors of the Bank, the Bank entered into an agreement of subscription for preference shares with Everbright Group and announced the connected transaction with Everbright Group ("the Transaction"), under which Everbright Group proposed to subscribe for part of the domestic preference shares to be issued by the Bank, the details of which were set out in the Bank's announcement dated 31 October 2014 on "*Connected Transaction – Subscription of Domestic Preference Shares by Controlling Shareholder*". Since Everbright Group is a connected person of the Bank, the transaction constituted a connected transaction of the Bank and was subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Transaction was proposed to and passed by the independent shareholders by way of ordinary resolution at the 2014 Third Extraordinary General Meeting of the Bank on 23 December 2014. As at the date of this report, the relevant government and regulatory authorities (CBRC and CSRC) had approved the issuance of the domestic preference shares and the issuance of the first tranche of 200 million preference shares was completed on 2 July 2015. The subscribers for the first tranche did not include any connected person of the Bank.

The original specific mandate regarding the issuance of domestic preference shares granted at the 2014 Third Extraordinary General Meeting of the Bank had expired in December 2015. In order to carry out the issuance of subsequent tranches of the domestic preference shares pursuant to the preference shares issuance plan as well as the Transaction, a resolution was passed by the Board of Directors of the Bank and then was approved by the Bank's independent shareholders at both the

2015 Annual General Meeting and relevant class shareholders' meetings of the Bank on 29 June 2016. The specific mandate was re-granted to the Board of Directors to handle all matters relating to the issuance of the subsequent tranches of domestic preference shares individually or jointly within the framework and according to the principles as considered and approved by the shareholders' general meeting and relevant class shareholders' meetings. The validity period of the specific mandate shall be 12 months commencing from the effective date of the shareholders' resolutions. The details of the specific mandate were set out in the Bank's announcement dated 29 March 2016 on "*Re-grant of the Specific Mandate Concerning the Domestic Preference Shares Issuance*". The Transaction was completed in August 2016.

## (II) Exempted connected transactions

During the reporting period, a series of connected transactions were entered into between the Bank and its connected persons in the ordinary course of business of the Bank. Pursuant to Chapter 14A of the Hong Kong Listing Rules, such connected transactions were exempted from reporting, annual review, announcement and independent shareholders' approval requirements.

## **XIX. Material Contracts and Their Performance**

### (I) Significant events of material custody, contracting or leasing assets of other companies, or other companies' material custody, contracting or leasing assets of the Bank

Except for daily business, during the reporting period, there was no significant matter in relation to any custody, contracting and leasing of assets by or to the Bank.

### (II) Significant guarantee

The provision of guarantee business is one of the routine operations of the Bank. During the reporting period, the Bank did not enter into any material guarantees which was required to be disclosed save for the financial guarantees within its business scope as approved by the People's Bank of China and CBRC.

### (III) Explanatory notes and independent opinion of Independent Non-Executive Directors concerning the provision of external guarantee by the Bank

In accordance with relevant regulations and requirements of *the Notice Concerning Certain Issues including Regulating the Capital Flow between Listed Companies and Their Related Parties and Listed Companies' Provision of Guarantee* (Zheng Jian Fa [2003] No. 56) of CSRC, the Independent Non-Executive Directors of the Bank reviewed external guarantee provided by the Bank on a just, fair and objective basis and issued their opinion as follows:

It was verified that the provision of external guarantee is one of the routine operations within the Bank's business scope which has been approved by the People's Bank of China and CBRC. As at the end of the reporting period, the Bank continued to provide a guarantee for the RMB180 million payable interests of financial bonds issued by Everbright Group, and Everbright Group

provided counter guarantee with its 50 million shares of a large securities firm. The Bank agreed to provide a guarantee of RMB70 million to Jiangsu Huai'an Everbright Village Bank Co., Ltd., a subsidiary of the Bank, for the latter's application with Huai'an Central Sub-Branch of the People's Bank of China for agriculture loan refinancing. Save as disclosed, for the balance of the guarantee business of the Bank, please refer to the "Notes to the Financial Statements".

Attaching importance to the risk management of guarantee business, the Bank formulated specific business management measures and operating procedures, and effectively monitored and prevented risks in the guarantee business by on-site and off-site inspections. During the reporting period, no business in violation of the above-mentioned regulations took place in the Bank.

Independent Non-Executive Directors of  
**China Everbright Bank Company Limited**  
**Mr. Qiao Zhimin, Mr. Xie Rong, Ms. Fok Oi Ling Catherine,**  
**Mr. Xu Hongcai, Mr. Feng Lun, Mr. Wang Ligu**

(IV) Significant Authorization to others in matters relating to cash assets management

During the reporting period, there was no significant authorization to others in matters relating to cash assets management.

(V) Other material contracts

During the reporting period, the Bank's daily operation and performance of contracts were normal. There was no other significant contracts.

## **XX. Fulfillment of Social Responsibilities**

The Bank has disclosed the full text of *the Social Responsibilities Report*. Please refer to the website of SSE, HKSE and the Bank for details.

## **XXI. Poverty Alleviation**

The Bank actively follows the Implementation Opinions on Finance-Helped Poverty Relief of seven departments including the People's Bank of China and attaches great importance to financial work in relation to poverty alleviation. Being committed to financial support and services in relation to poverty alleviation, it formulated the "13th Five-Year" *Financial Poverty Alleviation Work Plan* and established the "Steering Group for Poverty Alleviation" chaired by the President and responsible for studying and making decisions for significant matters in relation to accurate poverty alleviation. It developed the "finance + production" service model and set up the "Yunnan Wonderful Shopping" e-commerce platform collaboratively with Yunnan Provincial Government. It is the first bank-government co-established e-commerce platform in the PRC, with a view to promoting brand-name high-quality products nationwide and promoting the industrial development of poverty areas. The Bank continued to carry out charitable poverty alleviation and supported "Mother Water Cellar" for 12 consecutive years. As at the end of the reporting period, the Bank has

provided assistance for constructing 8,593 water cellars, 68 small-scaled water conservancy project and helped 23,855 beneficiary families and 111,228 beneficiaries.

Please refer to the Social Responsibility Report for more details of poverty alleviation.

## **XXII. Other Significant Events**

### **(I) Non-public issuance of H shares**

The proposal in respect of the plan of non-public issuance of H shares by the Company was considered and approved at the Shareholder's General Meeting on 19 November 2015. It was planned to issue 4 billion non-public H shares to Everbright Group and raise capital amounting to approximately HK\$19.6 billion. As at the end of the reporting period, the proposal in respect of the plan of non-public issuance of H shares by the Bank had expired, thus plan of issuance had lapsed. Accordingly, implementation of the plan of non-public issuance of H shares of the Bank has been terminated.

### **(II) Issuance of the second tranche of the first issuance of the Preference Shares**

On 15 June 2015, the non-public issuance of preference shares by the Bank was approved through the CSRC approval No. Zheng Jian Xu Ke [2015]1239. The Bank was permitted to conduct the non-public issuance of no more than 300 million preference shares. The issuance of the first tranche of the first issuance of 200 million preference shares by the Bank was completed on 19 June 2015 and the issuance of the second tranche of the first issuance of 100 million preference shares was completed on 8 August 2016 with a par value of RMB100 per share and coupon rate of 3.90%. With issuance expenses deducted, the actual proceeds raised amounted to RMB9,982 million, all of which were used to replenish the other tier-1 capital.

### **(III) Issuance of the Convertible Corporate Bonds**

The proposal concerning the public issuance of A share convertible corporate bonds and its listing was considered and approved at the Shareholders' General Meeting of the Bank on 29 June 2016. According to the proposal, the Bank was going to issue no more than RMB30 billion convertible corporate bonds. On 31 October 2016, approval was given to the Bank to publicly issue the A share convertible corporate bonds of not more than RMB30 billion in accordance with the document No. Yin Jian Fu [2016] 337 issued by CBRC. On 18 January 2017, the Issuance Review Committee of CSRC reviewed the Bank's application and approved the Bank to publicly issue the A share convertible corporate bonds of not more than RMB30 billion. On 17 March 2017, the Bank made a public issuance of A Shares convertible bonds of RMB30 billion.

### **(IV) Issuance of tier-2 bonds**

On 2 September 2016, the proposal of the issuance of tier-2 capital bonds of no more than RMB 40 billion was considered and approved at the Third Meeting of the Seventh Session of the Board of the Bank. On 15 November 2016, the 2016 First Extraordinary General Meeting reviewed



and approved such proposal. On 20 January 2017, approval was given to the Company to publicly issue the tier-2 capital bonds of not more than RMB40 billion pursuant to the document No. Yin Jian Fu [2017] 34 issued by CBRC. On 7 February 2017, approval was given to the Company to publicly issue the tier-2 capital bonds of no more than RMB40 billion in the national inter-bank bond market pursuant to the document No. Yin Shi Chang Xu Zhun Yu Zi [2017] 12 issued by PBOC. On 2 March 2017, the Bank issued the tier-2 capital bonds with a total principal amount of RMB28 billion, fixed coupon rate of 4.60% and a term of 10 years in the national inter-bank bond market, and the Bank is entitled to redeem the bonds at the end of the fifth year.

#### (V) Second Issuance of the Preference Shares

On 20 December 2016, the proposal of the issuance of the Preference Shares for the second time was considered and approved at the Fifth Meeting of the Seventh Session of the Board of the Bank. According to the proposal, the aggregate number of Preference Shares to be issued shall not exceed 500 million shares, with an aggregate amount of proceeds not exceeding RMB50 billion. On 28 February 2017, this proposal was reviewed and approved at the 2017 First Extraordinary General Meeting, the 2017 First A Shareholders' Class Meeting, the 2017 First H Shareholders' Class Meeting and the 2017 First Preference Shareholders' Class Meeting. As at the date of this report, the matter is in progress.

### **XXIII. Significant Matters of Subsidiaries**

#### (I) Everbright Financial Leasing Company Limited

On 28 October 2016, it was approved to further invest no more than RMB1.980 billion to Everbright Financial Leasing Company Limited at the Fourth Meeting of the Seventh Session of the Board of the Bank. As of the date of this report, the capital increase is in progress. During the reporting period, it did not distribute any profit and it had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Ernst & Young Hua Ming LLP to audit its financial report.

#### (II) Shaoshan Everbright Village Bank Co., Ltd.

During the reporting period, Shaoshan Everbright Village Bank Co., Ltd., did not make profit distribution and had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Baker Tilly China Certified Public Accountants to audit its financial report.

#### (III) Jiangsu Huai'an Everbright Village Bank Co., Ltd.

During the reporting period, Jiangsu Huai'an Everbright Village Bank Co., Ltd., did not make profit distribution and had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or

administrative penalty. It engaged Huai'an Xinrui Public Accounting Firm to audit its financial report.

#### (IV) CEB International Investment Co., Limited

On 2 September 2016, the Third meeting of the Seventh Session of the Board of the Bank approved to further invest HKD2 billion into CEB International Investment Co., Limited. As at the date of this report, the capital increase matter is in progress. During the reporting period, this company did not make profit distribution and had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Ernst & Young to audit its financial report.

### **XXIV. Professional Liability Insurance for the Directors, Supervisors and Senior Management**

During the reporting period and up to the date of this report, the Bank established a professional liability insurance system for the Directors, Supervisors and Senior Management in accordance with relevant laws and regulations and *the Articles of Association of the Bank*. *The Articles of Association of the Bank* and such professional liability insurance system set out relevant permitted indemnity provisions, and such insurance policies shall cover compensations to the insured parties for relevant fees from relevant liabilities and possible litigations.

### **XXV. Review of Annual Results of the Bank**

Ernst & Young Hua Ming LLP and Ernst & Young respectively audited the Bank's financial statements, which were prepared according to the PRC GAAP and IFRS, and issued the standard unqualified auditor's reports. The Board of Directors of the Bank and its Audit Committee have reviewed the annual results and financial reports of the Bank for the year ended 31 December 2016.

### **XXVI. Publication of Annual Report**

The Annual Report, in Chinese and English, prepared by the Bank in accordance with the IFRS and Hong Kong Listing Rules, are available at the websites of the HKSE and the Bank.

## IX Changes in Ordinary Shares Capital and Shareholders

### I. Changes in shares

Unit: share, %

	Before change		Changes during the reporting period		After change	
	Number	Percentage	Number	Percentage	Number	Percentage
I. Shares subject to trading moratorium	-	-	-	-	-	-
II. Shares not subject to trading moratorium	-	-	-	-	-	-
1. RMB-denominated ordinary shares (A Shares)	39,810,359,500	85.29	-	-	39,810,359,500	85.29
2. Domestically listed foreign shares	-	-	-	-	-	-
3. Overseas listed foreign shares (H Shares)	6,868,735,500	14.71	-	-	6,868,735,500	14.71
4. Others	-	-	-	-	-	-
III. Total shares	46,679,095,000	100.00	-	-	46,679,095,000	100.00

### II. Share Issuance and Listing

#### (I) Securities issuance

During the reporting period, the Bank did not issue any ordinary shares.

#### (II) Bond issuance and redemption

During the reporting period, the Bank had no issuance and redemption of convertible corporate bonds and corporate bonds.

(III) During the reporting period, there was no change in the total number of shares, shareholding structure or assets and liabilities structure of the Bank as a result of bonus issue, capitalization of the capital reserves, rights issue, issuance of new shares, non-public issuance of shares, exercise of warrants, adoption or exercise of share incentive scheme, mergers, conversion of convertible corporate bonds, capital reduction, listing of internal employee share, bond issuance or for other reasons.

(IV) The Bank does not have any internal employee shares.

### III. Number of Shareholders

Unit: Shareholder

	A Shares	H Shares
Total number of shareholders as at the end of the reporting period	261,923	1,017
Total number of shareholders as at the last trading day of the month prior to the disclosure of the A share annual report	245,531	1,015

### IV. Shareholding of Top 10 Shareholders

Unit: Share, %

Name of shareholder	Nature of shareholder	Change in the reporting period (+, -)	Class of shares	Number of shares held as at the end of the reporting period	Shareholding percentage as at the end of the reporting period	Number of shares pledged or frozen
China Everbright Group Limited	Domestic legal person	+508,660,242	A shares	11,565,940,276	24.78	-
		+45,930,000	H shares	172,965,000	0.37	-
Central Huijin Investment Ltd	State	-	A shares	10,250,916,094	21.96	-
Hong Kong Securities Clearing Company	-	+371,980	H shares	6,863,031,480	14.70	Unknown
Nominees Limited including:	Overseas legal person	+17,093,000	H shares	1,626,366,000	3.48	-
Ocean Fortune Investment Limited	Domestic legal person	+146,505,000	H shares	1,309,218,000	2.80	-
China Life Reinsurance Company Limited						
China Everbright Limited	Overseas legal person	-	A shares	1,572,735,868	3.37	-
China Securities Finance Corporation Limited	Domestic legal person	-104,885,029	A shares	1,230,609,251	2.64	-
China Reinsurance (Group) Corporation	Domestic legal person	-173,200,000	A shares	609,713,367	1.30	-
		+317,953,000	H shares	376,393,000	0.81	-
Shenergy (Group) Co., Ltd	Domestic legal person	-	A shares	766,002,403	1.64	-
Zhuhai Shipping Corporation Limited	Domestic legal person	+723,999,875	A shares	723,999,875	1.55	-
Central Huijin Asset Management Ltd.	State	-	A shares	629,693,300	1.35	-
Yunnan Hehe (Group) Co., Ltd.	Domestic legal person	+626,063,556	A shares	626,063,556	1.34	-

Note:

- As at the end of the Reporting Period, all ordinary shares of the Bank are not subject to selling restrictions.
- The Bank was aware that as at the end of the Reporting Period, Central Huijin Investment Limited held 55.67% and 71.56% interest in China Everbright Group Limited and China Reinsurance (Group) Corporation respectively; Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Central Huijin Investment Limited; China Everbright Limited is a subsidiary of China Everbright Holdings Company Limited, and China Everbright Holdings Company Limited is a wholly-owned subsidiary of China Everbright Group Limited; China Life Reinsurance Company Limited is a subsidiary of China Reinsurance (Group) Corporation; Zhuhai Shipping Corporation Limited and Ocean Fortune Investment Limited are both subsidiaries of China Shipping (Group) Company. Save for the above, the Bank is not aware of any connected relationship or concerted action among the above ordinary shareholders.

3. The total number of H shares of the Bank held by the Hong Kong Securities Clearing Company Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 6,863,031,480 H shares as at the end of the reporting period. The Bank was aware that apart from the 1,626,366,000, 1,309,218,000, 172,965,000 and 376,393,000 H shares of the Bank held by Ocean Fortune Investment Limited, China Life Reinsurance Company Limited, China Everbright Group Limited and China Reinsurance (Group) Corporation held respectively, all of which were under the name of Hong Kong Securities Clearing Company Nominees Limited. The number of remaining H shares of the Bank held under the name of Hong Kong Securities Clearing Company Nominees Limited was 3,378,089,480 H shares.
4. The shares of the Bank held by Yunnan Hehe (Group) Co., Ltd. were from Hongta Tobacco (Group) Limited and Hongyunhonghe Tobacco (Group) Co., Ltd. under gratuitous transfer.
5. The shares of the Bank held by Zhuhai Shipping Corporation Limited were transferred from COSCO Shipping (Guangzhou) Co., Ltd. and Guangzhou Haining Maritime Service Co., Ltd by means of block trade.

## V. Confirmation of the Bank's Compliance with Requirement of Sufficiency of Public Float under the Hong Kong Listing Rules

Based on publicly available information and to the knowledge of the Directors, as at 31 December 2016, the Bank had maintained the minimum public float as required by the Hong Kong Listing Rules and the waiver granted by the HKSE.

## VI. Profile of Substantial Shareholders of the Bank

(I) The chart of shareholding structure of the Bank and its substantial shareholders

See the chart attached to this chapter.

(II) China Everbright Group Limited

### 1. Basic information

Company name:	China Everbright Group Limited
Legal Representative:	Tang Shuangning
Date of establishment:	12 November 1990 (Name changed on 8 December 2014 following transformation to a joint stock company)
Business scope:	Investment in and management of financial enterprises, including banking, securities, insurance, funds, trust, futures, leasing and gold and silver transactions; asset management; investment in and management of non-financial enterprises. (Business activities which are subject to relevant approval in accordance with applicable laws shall be carried out only after obtaining of such approvals granted by competent regulatory authorities.)

## 2. Shareholding in other domestic and overseas listed companies

As at 31 December 2016, the shareholding of Everbright Group in other domestic and overseas listed company were as follows:

Unit: %

Company Name	Stock Exchanges for Listing	Shareholding Percentage
Everbright Securities Co., Ltd.	Shanghai Stock Exchange, Hong Kong Stock Exchange	49.85
China Everbright Limited	Hong Kong Stock Exchange	49.74
China Everbright International Limited	Hong Kong Stock Exchange	41.40
Shenwan Hongyuan Securities Co., Ltd.	Shenzhen Stock Exchange	4.98

### (III) Central Huijin Investment Ltd.

#### 1. Basic information

Company name:	Central Huijin Investment Ltd.
Legal Representative:	Ding Xuedong
Date of establishment:	16 December 2003
Business scope:	Equity investment in major state-owned financial enterprises in accordance with authorization by the State Council; other relevant businesses approved by the State Council.

## 2. Shareholding in other domestic and overseas listed companies

Unit: %

Company Name	Stock Exchanges for Listing	Shareholding Percentage
Industrial and Commercial Bank of China Limited	Shanghai Stock Exchange, Hong Kong Stock Exchange	34.71
Agricultural Bank of China Limited	Shanghai Stock Exchange, Hong Kong Stock Exchange	40.03
Bank of China Limited	Shanghai Stock Exchange, Hong Kong Stock Exchange	64.02
China Construction Bank Corporation	Shanghai Stock Exchange, Hong Kong Stock Exchange	57.11
China Reinsurance (Group) Corporation	Hong Kong Stock Exchange	71.56
New China Life Insurance Company Limited	Shanghai Stock Exchange, Hong Kong Stock Exchange	31.34
Shenwan Hongyuan Securities Co., Ltd.	Shenzhen Stock Exchange	25.03
China International Capital Corporation Limited	Hong Kong Stock Exchange	28.45
CSC Financail Co., Ltd	Hong Kong Stock Exchange	33.29

## VII. Interests or Short Positions of Substantial Shareholders and Other Persons in Shares and Underlying Shares of the Bank under Hong Kong Laws and Regulations

As at 31 December 2016, so far as was known to Directors and Supervisors of the Bank, the following persons or corporations (other than Directors, Supervisors or Chief Executives of the Bank) had interests and short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance of Hong Kong (“HKSFO”) or which were required to be notified to the Bank:

Name of substantial shareholder	Notes	Class of shares	Type of interest	Long/Short position	Number of shares	Percentage of the relevant shares in issue (%) <sup>4,5</sup>	Percentage of the total issued shares (%) <sup>4,5</sup>
China COSCO Shipping Corporation Limited	1	H shares	Interest of controlled corporation	Long	1,626,366,000	23.67	3.48
China Shipping (Group) Company	1	H shares	Interest of controlled corporation	Long	1,626,366,000	23.67	3.48
COSCO SHIPPING Financial Holdings Co., Limited (formerly known as “China Shipping (Hong Kong) Holdings Co. Ltd”)	1	H shares	Interest of controlled corporation	Long	1,626,366,000	23.67	3.48
Ocean Fortune Investment Limited	1	H shares	Beneficial owner	Long	1,626,366,000	23.67	3.48
Central Huijin Investment Ltd.	2	H shares	Interest of controlled corporation	Long	1,942,206,000	28.27	4.16
China Reinsurance (Group) Corporation	2	H shares	Beneficial owner/ Interest of controlled corporation	Long	1,685,611,000	24.54	3.61
China Life Reinsurance Company Ltd.	2	H shares	Beneficial owner	Long	1,309,218,000	19.06	2.80
National Council for Social Security Fund		H shares	Beneficial owner	Long	617,375,500	8.98	1.32
China Everbright Group Ltd.	3	A shares	Beneficial owner/ Interest of controlled corporation	Long	13,355,232,402	33.55	28.61
Central Huijin Investment Ltd.	3	A shares	Beneficial owner/ Interest of controlled corporation	Long	24,845,555,163	62.40	53.22

Notes:

1. Ocean Fortune Investment Limited held a long position in 1,626,366,000 H shares of the Bank directly. As far as the Bank is aware, Ocean Fortune Investment Limited was wholly-owned by COSCO SHIPPING Financial Holdings Co., Limited, while COSCO SHIPPING Financial Holdings Co., Limited was wholly-owned by China Shipping (Group) Company. China Shipping (Group) Company was wholly-owned by China COSCO Shipping Corporation Limited. In accordance with the HKSFO, China COSCO Shipping Corporation Limited, China Shipping (Group) Company and COSCO SHIPPING Financial Holdings Co., Limited were

deemed to be interested in the 1,626,366,000 H shares held by Ocean Fortune Investment Limited.

2. China Life Reinsurance Company Ltd. held a long position in 1,309,218,000 H shares of the Bank directly. China Reinsurance (Group) Corporation held a long position in 376,393,000 H shares of the Bank directly. China Everbright Group Ltd. held a long position in 172,965,000 H shares of the Bank directly. China Everbright Holdings Company Limited held a long position in 83,630,000 H Shares of the Bank directly. As far as the Bank is aware, China Life Reinsurance Company Ltd. was wholly-owned by China Reinsurance (Group) Corporation, while 71.56% of the issued share capital of China Reinsurance (Group) Corporation was held by Central Huijin Investment Ltd.. China Everbright Holdings Company Limited was wholly-owned by China Everbright Group Ltd., while 55.67% of the issued share capital of China Everbright Group Ltd. was held by Central Huijin Investment Ltd.. In accordance with the HKSF, China Reinsurance (Group) Corporation was deemed to be interested in the 1,309,218,000 H shares held by China Life Reinsurance Company Ltd., while China Everbright Group Ltd. was deemed to be interested in the 83,630,000 H shares held by China Everbright Holdings Company Limited. Therefore, Central Huijin Investment Ltd. was deemed to be interested in a total of 1,942,206,000 H shares of the Bank.

3. China Everbright Group Ltd. directly held a long position in 11,565,940,276 A shares of the Bank. China Everbright Group Ltd. was deemed to be interested in a long position in a total of 1,789,292,126 A shares of the Bank held by its following subsidiaries:

(1) China Everbright Limited directly held a long position in 1,572,735,868 A shares of the Bank.

(2) Meiguang Enyu (Shanghai) Properties Company Limited directly held a long position of 148,156,258 A shares of the Bank.

(3) China Everbright Investment and Assets Management Co., Ltd. directly held a long position of 8,000,000 A shares of the Bank.

(4) Everbright Financial Holding Asset Management Co., Ltd. held a long position of 60,400,000 A shares of the Bank.

Therefore, China Everbright Group Ltd. directly and indirectly held a long position of 13,355,232,402 A shares of the Bank in total.

Central Huijin Investment Ltd. directly held a long position in 10,250,916,094 A shares of the Bank, whereas China Reinsurance (Group) Corporation and Central Huijin Asset Management Ltd. directly held a long position of 609,713,367 and 629,693,300 A shares of the Bank respectively. As far as the Bank is aware, 100% of the issued share capital of Central Huijin Asset Management Ltd., 71.56% of the issued share capital of China Reinsurance (Group) Corporation and 55.67% of the issued share capital of China Everbright Group Ltd. were held by Central Huijin Investment Ltd. respectively. In accordance with the HKSF, Central Huijin Investment Ltd. was deemed to be interested in the long position in 629,693,300 A shares held by Central Huijin Asset Management Ltd., the long position in 609,713,367 A shares held by China Reinsurance (Group) Corporation, and the long position in 13,355,232,402 A shares held by China Everbright Group Ltd.. Therefore, Central Huijin Investment Ltd. directly and indirectly held a long position in 24,845,555,163 A shares of the Bank in total.

4. As at 31 December 2016, the total issued share capital of the Bank was 46,679,095,000 shares, including 39,810,359,500 A shares and 6,868,735,500 H shares.

5. The percentage of shareholdings are calculated by rounding to two decimal places.

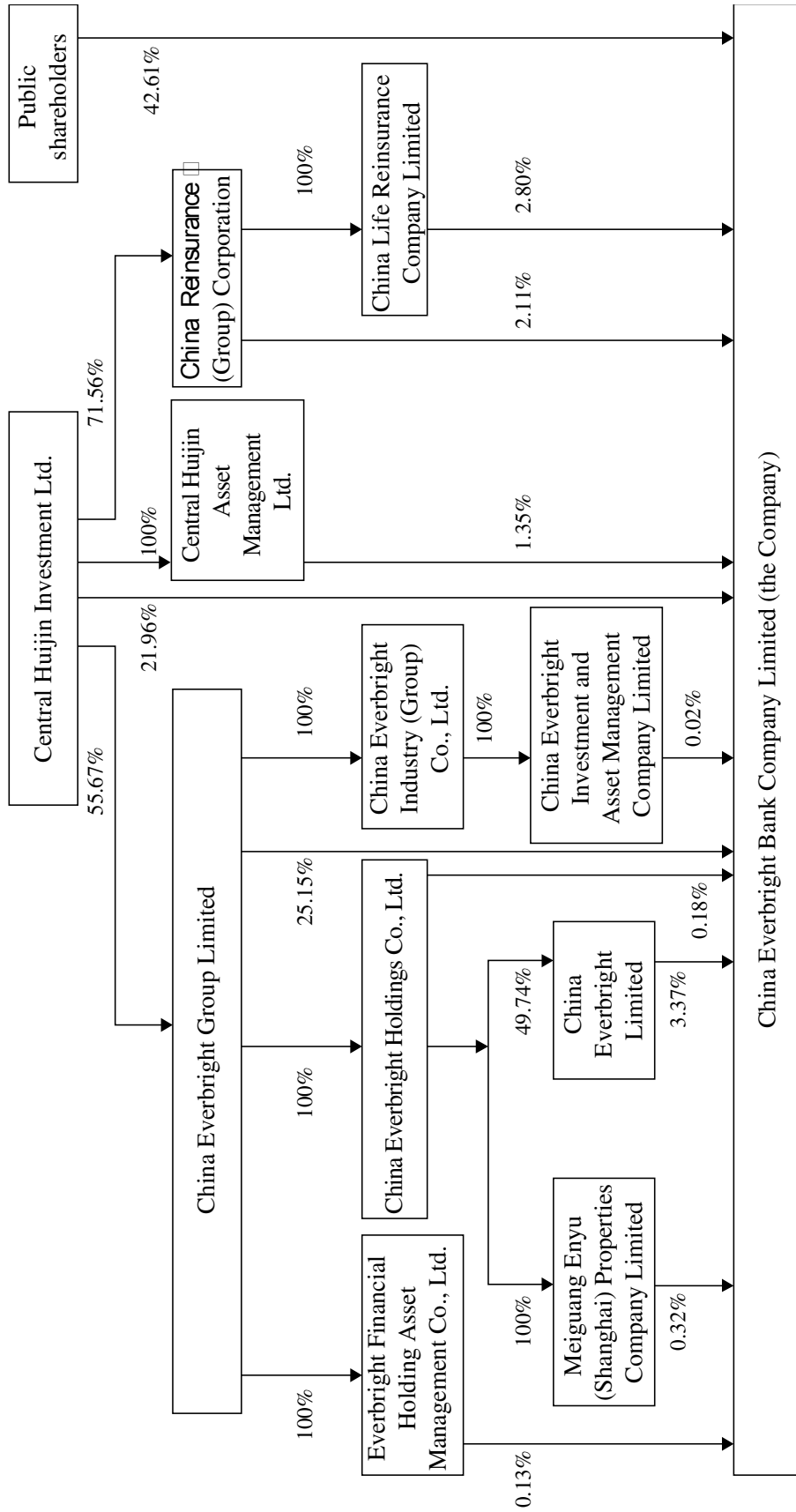
Save as disclosed above, as at 31 December 2016, the Bank had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Bank which were required to be disclosed to the Bank under the provisions of Divisions 2 and 3 of Part XV of the HKSF, or which were recorded in the register required to be kept by the Bank under section 336 of the HKSF.



### **VIII. Interests or short positions of Directors, Supervisors and Chief Executives in Shares, Underlying Shares and Debentures of the Bank under Hong Kong Laws and Regulations**

As at 31 December 2016, as far as the Directors and Supervisors of the Bank are aware, none of the Directors, Supervisors nor the Chief Executives of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in the HKSFPO) which were required to be recorded in the register required to be kept under Section 352 of the HKSFPO, or which were required to be notified to the Bank and the HKSE pursuant to Divisions 7 and 8 of Part XV of the HKSFPO, or which are required to be notified to the Bank and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Hong Kong Listing Rules nor have they been granted the right to acquire any interests in shares or debentures of the Bank or any of its associated corporations.

The chart of shareholding structure of China Everbright Bank Company Limited and its substantial shareholders



As at 31 December 2016

## X Changes in Preference Shares Capital and Shareholders

### I. The Issuance and Listing of Preference Shares for the last three years

Unit: %, Ten thousand shares

Code	Abbreviation	Date of Issuance	Issuance Price (RMB)	Coupon Rate	Issuance Volume	Date of Listing	Approved Volume for Listing and Trading	Date of Delisting
360013	Everbright P1	19 June 2015	100	5.30	20,000	21 July 2015	20,000	-
360022	Everbright P2	8 August 2016	100	3.90	10,000	26 August 2016	10,000	-

### II. Use of Proceeds

On 8 August 2016, the Bank issued 100 million preference shares for the second tranche of the first issuance with a par value of RMB100 per share. With issuance expenses deducted, the actual proceeds raised were RMB9,982 million, all of which would be used to replenish the other tier-1 capital of the Bank.

### III. Total Number of Preference Shareholders and Shareholdings of Top 10 Preference Shareholders

(I) Everbright P1 (Code of preference shares 360013)

Unit: Share, %

Number of preference shareholders as at the end of the reporting period (shareholder)		18				
Number of preference shareholders as at the last trading day of the month prior to the disclosure of this annual report (shareholder)		18				
Name of preference shareholder	Nature of shareholder	Changes in shareholding during the reporting period	Number of shares held	Percentage of shareholding	Type of shares	Number of shares pledged/frozen
Bank of Communications Schroder Fund Management Co., Ltd.	Others	-	37,750,000	18.88	Domestic preference shares	-
China CITIC Bank Corporation Limited	Others	-	17,750,000	8.88	Domestic preference shares	-
Chuangjin Hexin Fund Management Limited	Others	-	15,510,000	7.76	Domestic preference shares	-
BOCI Securities Limited	Others	-	15,500,000	7.75	Domestic preference shares	-
Bank of Communications International Trust Co., Ltd.	Others	-	15,500,000	7.75	Domestic preference shares	-
Hwabao Trust Co., Ltd.	Others	-	13,870,000	6.94	Domestic preference shares	-

China Resources SZITIC Trust Co., Ltd.	Others	-	13,870,000	6.94	Domestic preference shares	-
CCB Trust Co., Limited	Others	-	10,000,000	5.00	Domestic preference shares	-
China Ping An Property & Casualty Insurance Co., Ltd.	Others	-	10,000,000	5.00	Domestic preference shares	-
China Ping An Life Insurance Co., Ltd.	Others	-	10,000,000	5.00	Domestic preference shares	-

Note: China Ping An Property & Casualty Insurance Co., Ltd. and China Ping An Life Insurance Co., Ltd have connected relations. Bank of Communications Schroder Fund Management Co., Ltd and Bank of Communications International Trust Co., Ltd have connected relations. Save for the above, the Bank is not aware of any connecting relationship or concerted actions among the above shareholders of preference shares and the top 10 shareholders of ordinary shares.

## (II) Everbright P2 (Code of preference shares 360022)

Unit: Share, %

<b>Number of preference shareholders as at the end of the reporting period (shareholder)</b>			23			
<b>Number of preference shareholders as at the last trading day of the month prior to the disclosure of this annual report (shareholder)</b>			23			
<b>Name of preference shareholder</b>	<b>Nature of shareholder</b>	<b>Changes in shareholding during the reporting period</b>	<b>Number of shares held</b>	<b>Percentage of shareholding</b>	<b>Type of shares</b>	<b>Number of shares pledged/frozen</b>
AXA SPDB Investment Managers Co., Ltd	Others	16,470,000	16,470,000	16.47	Domestic preference shares	-
Shanghai Wisdom Asset Management Co., Ltd.	Others	13,090,000	13,090,000	13.09	Domestic preference shares	-
China Everbright Group Limited	Others	10,000,000	10,000,000	10.00	Domestic preference shares	-
China Life Insurance Company Limited	Others	8,180,000	8,180,000	8.18	Domestic preference shares	-
Postal Savings Bank of China Co., Ltd.	Others	7,200,000	7,200,000	7.20	Domestic preference shares	-
Bank of Communications Schroder Fund Management Co., Ltd.	Others	6,540,000	6,540,000	6.54	Domestic preference shares	-
Bank of Communications International Trust Co., Ltd.	Others	6,540,000	6,540,000	6.54	Domestic preference shares	-
China Resources SZITIC Trust Co., Ltd.	Others	3,680,000	3,680,000	3.68	Domestic preference shares	-
BOCI Securities Limited	Others	3,270,000	3,270,000	3.27	Domestic preference shares	-
HuaAn Future Asset Management (Shanghai) Limited	Others	3,270,000	3,270,000	3.27	Domestic preference shares	-

Bank Of Hangzhou Co.,Ltd.	Others	3,270,000	3,270,000	3.27	Domestic preference shares	-
China Credit Trust Co., Ltd.	Others	3,270,000	3,270,000	3.27	Domestic preference shares	-

Note: Bank of Communications Schroder Fund Management Co., Ltd and Bank of Communications International Trust Co., Ltd have connected relations. China Everbright Group Limited is one of the top 10 holders of the ordinary shares of the Bank. Save for the above, the Bank is not aware of any connecting relationship or concerted actions among the above shareholders of preference shares and the top 10 shareholders of ordinary shares.

## IV. Profit Distribution of the Preference Shares

### (I) Policy of profit distribution of Preference Shares

The first tranche under the first issuance of preference shares issued by the Bank in June 2015 (hereinafter referred to as the “First Tranche Preference Shares”) and the second tranche under the first issuance of preference shares issued in August 2016 (hereinafter referred to as the “Second Tranche Preference Shares”) are priced at coupon rates subject to adjustments at different intervals. The coupon rate shall remain unchanged for the first 5 years commencing from the issuance date. Subsequently, the coupon rate shall be adjusted once every 5 years. The coupon rate will remain unchanged for every new period. Through market consultation, the first coupon rate for the First Tranche Preference Shares was determined at 5.30%. Through market consultation, the first coupon rate for the Second Tranche Preference Shares was determined at 3.90%.

The dividends on the two tranches of Preference Shares are non-cumulative, and the dividends shall be paid in cash and paid annually. Under the circumstance that the Bank decides to cancel part of or all of the dividend payment of the Preference Shares, the undistributed dividends shall not be carried forward to the following dividend period. The Preference Shareholders are not entitled to the distribution of the remaining profit along with ordinary shareholders after receiving dividends at agreed rate.

### (II) The profit distribution Plan of Preference Shares for the year

According to relevant agreement, the Bank will hold a Board Meeting at least ten working days prior to the dividend payment date of the First Tranche Preference Shares (i.e. 26 June 2017) and the Second Tranche Preference Shares (i.e. 11 August 2017) to consider issues relating to the dividend payment and issue announcements to notify holders of the preference shares.

The Bank distributed the dividend for the First Tranche Preference Shares on 27 June 2016 at a dividend rate of 5.30%. The distribution plan has been implemented.

(III) The amount and proportion of the distributed dividend of preference shares for the last three years

Unit: RMB million, %

Item	2016	2015	2014
Amount of distribution	1,060	-	-
Proportion of distribution	100.00	-	-

Note: Proportion of distribution is based on the declared dividend and the agreed dividend payable for the year.

**V. During the reporting period, there was no redemption of Preference Shares or conversion of Preference Shares into ordinary shares by the Bank.**

**VI. During the reporting period, there was no voting right restoration of the Preference Shares of the Bank.**

### **VII. The Accounting Policies for the Preference Shares of the Bank and Reasons**

According to the provisions of the “*Accounting Standards for Enterprises No. 22- Recognition and Measurement of Financial Instruments*”, “*Accounting Standards for Enterprises No. 37 - Presentation of Financial Instruments*” and “*Rules on Differentiating the Financial Liabilities and the Equity Instruments and Relevant Accounting Treatment*” promulgated by the Ministry of Finance, the preference shares by the Bank was accounted for as an equity instrument.

## XI Directors, Supervisors, Senior Management, Staff, Branches and Outlets

### I. Profile of Directors, Supervisors and Senior Management

Name	Position	Gender	Age	Terms of Office	Total remuneration from the Company during the reporting period (Pretax, RMB ten thousand)	Whether received remuneration from the connected party
Mr. Tang Shuangning	Secretary of CPC Committee of the Bank, Chairman, Non-Executive Director	Male	62	2007.07-2019.06	-	Yes
Mr. Gao Yunlong	Vice Chairman, Non-Executive Director	Male	58	2014.12-2019.06	-	Yes
Mr. Zhang Jinliang	Deputy Secretary of CPC Committee of the Bank, Executive Director, President	Male	47	2016.08-2019.06 (serving as the president since February 2016)	47.02	No
Mr. Ma Teng	Deputy Secretary of CPC Committee of the Bank, Executive Director, Executive Vice President	Male	58	2015.03-2019.06 (serving as the executive vice president since December 2010)	129.60	No
Ms. Li Jie	Member of CPC Committee of the Bank, Executive Director, Executive Vice President	Female	58	2016.09-2019.06 (serving as the executive vice president since August 2003)	129.60	No
Mr. Zhang Shude	Non-Executive Director	Male	53	2016.09-2019.06	-	Yes
Mr. Li Huaqiang	Non-Executive Director	Male	58	2016.09-2019.06	-	Yes
Mr. Zhao Wei	Non-Executive Director	Male	45	2015.02-2019.06	-	Yes
Mr. Qiao Zhimin	Independent Non-Executive Director	Male	64	2013.01-2019.06	39.00	Yes
Mr. Xie Rong	Independent Non-Executive Director	Male	64	2013.01-2019.06	37.00	No
Ms. Fok Oi Ling Catherine	Independent Non-Executive Director	Female	58	2014.01-2019.06	37.00	Yes
Mr. Xu Hongcai	Independent Non-Executive Director	Male	52	2015.02-2019.06	-	No
Mr. Feng Lun	Independent Non-Executive Director	Male	57	2015.02-2019.06	35.00	Yes
Mr. Wang Liguo	Independent Non-Executive Director	Male	59	2017.01-2019.06	-	No
Mr. Li Xin	Chairman of the Board of Supervisors	Male	56	2015.06-2019.06	130.90	No
Mr. Yin Lianchen	Shareholder Supervisor	Male	50	2014.12-2019.06	-	Yes
Mr. Wu Junhao	Shareholder Supervisor	Male	51	2009.11-2019.06	-	No

Name	Position	Gender	Age	Terms of Office	Total remuneration from the Company during the reporting period (Pretax, RMB ten thousand)	Whether received remuneration from the connected party
Mr. Yu Erniu	External Supervisor	Male	67	2012.11-2019.06	30.00	Yes
Mr. Wu Gaolian	External Supervisor	Male	64	2016.06-2019.06	15.00	No
Mr. Deng Ruilin	External Supervisor	Male	67	2016.06-2019.06	7.25	No
Mr. Wang Zhe	External Supervisor	Male	56	2016.11-2019.06	2.08	Yes
Mr. Ye Donghai	Employee Supervisor	Male	53	2012.11-2019.06	208.10	No
Ms. Liu Yan	Employee Supervisor	Female	43	2016.06-2019.06	105.18	No
Mr. Zhang Huayu	Member of CPC Committee of the Bank, Executive Vice President	Male	58	2006.02-	129.60	No
Mr. Lu Hong	Member of CPC Committee of the Bank, Executive Vice President, Secretary to the Board	Male	53	2009.03-	129.60	No
Mr. Wu Jian	Member of CPC Committee of the Bank, Executive Vice President, General Manager of Beijing Branch	Male	55	2014.01-	99.60	No
Mr. Yao Zhongyou	Member of CPC Committee of the Bank, Executive Vice President	Male	53	2014.05-	99.60	No
Mr. Huang Haiqing	Member of CPC Committee of the Bank, Secretary of Disciplinary Committee (Executive Vice President Level)	Male	52	2016.06-	58.10	No
Mr. Sun Qiang	Member of CPC Committee of the Bank, Assistant to the President	Male	48	2016.08-	35.98	No
Total remuneration received from the Bank					1,505.21	

## Note:

- The remuneration of Directors and Supervisors is subject to approval of the general meeting of shareholders;
- The remuneration of certain Directors, Supervisors, and Senior Management of the Bank has not been finalized and an announcement will be made for further disclosure in due course.
- The remuneration of Directors, Supervisors and Senior Management serving in 2016 was calculated according to the actual term of office.
- Deng Ruilin, the External Supervisor, has not received remuneration from the Bank since October 2016;
- During the reporting period, none of the Directors, Supervisors and Senior Management held any shares of the Bank.
- During the reporting period, the Bank had not implemented any share incentive scheme, and none of the Directors and Senior Management of Bank held any share option of the Bank's shares or was granted any restrictive shares.
- The incumbent Directors, Supervisors, Senior Management of the Bank have not been subject to penalty by any securities regulatory authorities in the recent three years.



## II. Directors, Supervisors and Senior Management who Resigned during the Reporting Period

Name	Title	Gender	Age	Terms of Service	Total remuneration from the Bank during the reporting period (Pre-tax, RMB ten thousand)	Whether received remuneration from the connected party
Mr. Wu Jian	Non-Executive Director	Male	46	2007.12-2016.06	-	Yes
Ms. Wang Shumin	Non-Executive Director	Female	60	2012.02-2016.06	-	Yes
Mr. Wu Gaolian	Non-Executive Director	Male	64	2013.01-2016.06	-	Yes
Mr. Liu Jun	Non-Executive Director	Male	44	2016.08-2016.11	-	Yes
Mr. Yang Jigui	Non-Executive Director	Male	50	2015.02-2016.12	-	Yes
Mr. Zhang Xinze	Independent Non-Executive Director	Male	70	2011.11-2017.01	-	No
Mr. Wu Gang	Non-Executive Director	Male	58	2011.03-2017.01	-	Yes
Mr. Mu Huijun	Vice Chairman of the Board of Supervisors	Male	60	2009.11-2017.03	129.60	No
Mr. James Parks Stent	External Supervisor	Male	71	2013.01-2016.06	15.00	No
Ms. Chen Yu	Employee Supervisor	Female	51	2003.07-2016.06	111.44	No
Mr. Ma Ning	Employee Supervisor	Male	45	2012.11-2016.06	163.47	No
Mr. Qiu Huofa	Member of CPC Committee of the Bank, Executive Vice President, General Manager of Beijing Branch	Male	56	2012.12-2016.05	54.00	No
Mr. Cai Yunge	Member of CPC Committee of the Bank, Secretary to the Board (Executive Vice President Level)	Male	45	2014.05-2016.12	83.00	No
Total remuneration received from the Bank					556.51	

Note:

1. The remuneration of resigned Directors, Supervisors, and Senior Management of the Bank for 2016 was calculated according to the actual term of office;
2. The resigned Directors, Supervisors, Senior Management of the Bank have not been subject to penalty from securities regulatory authorities in the recent three years.

### III. Changes in Directors, Supervisors and Senior Management during the Reporting Period

#### (I) Changes of Directors

1. On 29 June 2016, due to change of session of the Board of Directors, Mr. Wu Jian ceased to serve as Non-Executive Director of the Board of Directors, member of the Strategy Committee of the Board of Directors, Chairman of the Risk Management Committee of the Board of Directors and member of the Audit Committee of the Board of Directors of the Bank.

2. On 29 June 2016, due to change of session of the Board of Directors, Ms. Wang Shumin ceased to serve as Non-Executive Director of the Board of Directors, member of the Strategy Committee of the Board of Directors and member of the Remuneration Committee of the Board of Directors of the Bank.

3. On 29 June 2016, due to change of session of the Board of Directors, Mr. Wu Gaolian ceased to serve as Non-Executive Director of the Board of Directors, member of the Risk Management Committee of the Board of Directors and member of the Remuneration Committee of the Board of Directors of the Bank.

4. On 25 August 2016, CBRC approved Mr. Liu Jun to serve as the Non-Executive Director and Mr. Zhang Jinliang to serve as the Executive Director.

5. On 27 September 2016, CBRC approved Ms. Li Jie to serve as the Executive Director and Mr. Zhang Shude and Mr. Li Huaqiang to serve as the Non-Executive Directors.

6. On 18 November 2016, due to job assignment, Mr. Liu Jun resigned from the positions of Non-Executive Director of the Board of Directors, member of the Risk Management Committee of the Board of Directors and member of the Audit Committee of the Board of Directors of the Bank.

7. On 5 December 2016, due to job assignment, Mr. Yang Jigui resigned from the positions of Non-Executive Director of the Board of Directors, member of the Risk Management Committee of the Board of Directors and member of the Audit Committee of the Board of Directors of the Bank.

8. On 10 January 2017, CBRC approved Mr. Wang Liguang to serve as the Independent Director.

9. On 10 January 2017, Mr. Zhang Xinze ceased to serve as Independent Non-Executive Director of the Bank, member of the Audit Committee of the Board of Directors, member of the Remuneration Committee of the Board of Directors and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank.

10. On 16 January 2017, due to job assignment, Mr. Wu Gang resigned from the positions of Non-Executive Director of the Board of Directors, member of the Remuneration Committee of the Board of Directors and member of the Strategy Committee of the Board of Directors of the Bank.

11. On 20 December 2016, the fifth meeting of the Seventh Session of the Board of the Bank approved Mr. Cai Yunge and Mr. Liu Chong as the candidates for Non-Executive Director of the Seventh Session of the Board. On 28 February 2017, at the first extraordinary general meeting of the Bank for 2017, Mr. Cai Yunge and Mr. Liu Chong were elected as the Non-Executive Director of the Seventh Session of the Board. As at the date of disclosure of this Report, the qualification of the above Directors is subject to the approval from CBRC.

## (II) Changes of Supervisors

1. On 27 June 2016, due to change of session of the Board of Supervisors, Ms. Chen Yu ceased to serve as an Employee Supervisor and member of the Supervision Committee of the Board of Supervisors of the Bank.

2. On 27 June 2016, due to change of session of the Board of Supervisors, Mr. Ma Ning ceased to serve as an Employee Supervisor and member of the Nomination Committee of the Board of Supervisors of the Bank.

3. On 27 June 2016, Ms. Liu Yan was elected as the Employee Supervisor of the seventh session of the Board of Supervisors of the Bank at the special meeting of employee representatives for 2016 of the Bank.

4. On 29 June 2016, due to change of session of the Board of Supervisors, Mr. James Parks Stent ceased to serve as External Supervisor, Chairman of the Supervision Committee of the Board of Supervisors and member of the Nomination Committee of the Board of Supervisors of the Bank.

5. On 29 June 2016, Mr. Wu Gaolian and Mr. Deng Ruilin were elected as External Supervisors of the Seventh Session of the Board of Supervisors of the Bank at the 2015 annual general meeting of the Bank.

6. On 15 November 2016, Mr. Wang Zhe was elected as the External Supervisors of the Seventh Session of the Board of Supervisors of the Bank at the First Extraordinary General Meeting of Shareholders of 2016.

7. On 1 March 2017, Mr. Mu Huijun resigned from the positions of Vice Chairman of the Board of Supervisors, Employee Supervisor and member of the Supervision Committee of the Board of Supervisor of the Bank due to his retirement.

## (III) Changes of Senior Management

1. In May 2016, due to job assignment, Mr. Qiu Huofa resigned from the position of Executive Vice President of the Bank.

2. In June 2016, Mr. Huang Haiqing was appointed as a member of CPC Committee and Secretary of the Disciplinary Committee of the CPC Committee of the Bank (Vice President).

3. In August 2016, Mr. Sun Qiang served as a member of CPC Committee of the Bank. On 28 October 2016, the 4th meeting of the Seventh Session of the Board of Directors of the Bank agreed to appoint Mr. Sun Qiang as the Assistant President of the Bank, whose appointment qualification was approved by the CBRC on 10 January 2017.

4. In September 2016, due to job assignment, Mr. Cai Yunge ceased to serve as a member of CPC Committee of the Bank. On 26 December 2016, Mr. Cai Yunge ceased to serve as a Secretary to the Board of Directors of the Bank.

5. On 28 October 2016, the 4th meeting of the Seventh Session of the Board of Directors of the Bank agreed to appoint Mr. Lu Hong as the Secretary to the Board of Directors of the Bank, whose appointment qualification was approved by the CBRC on 26 December 2016.

#### (IV) Changes in Information of Directors and Supervisors during the Reporting Period

1. Mr. Tang Shuangning, Chairman of the Board of Directors and Non-Executive Director of the Bank concurrently served as Non-Executive Director of China Everbright Limited. He ceased to serve as the Chairman of the Board of Directors of China Everbright Limited. He concurrently served as Non-executive director of China Everbright International Limited, and ceased to serve as the Chairman of the Board of Directors of China Everbright International Limited.

2. Ms. Li Jie, Executive Director of the Bank, concurrently served as Director of Everbright Jin'ou Asset Management Limited.

3. Mr. Zhang Shude, Non-Executive Director of the Bank, concurrently served as Director of China Everbright Group Limited.

4. Mr. Li Huaqiang, Non-Executive Director of the Bank, concurrently served as a Director of China Everbright Group Limited.

5. Mr. Xie Rong, Independent Non-Executive Director of the Bank, ceased to be an Independent Director of Shanghai Baosight Software Co., Ltd. and concurrently served as Independent Director of Shanghai International Trust Company Limited.

6. Mr. Wang Liguo, Independent Non-Executive Director of the Bank, concurrently served as Chairman of Dalian Yadong Investment Consulting Co., Ltd.

7. Mr. Wang Zhe, an External Supervisor of the Bank, concurrently served as the Vice Chairman of Shanghai Financial Association and an Independent Director of Shanghai Pudong Development Bank.

## V. Procedures for Determining the Remuneration of the Directors, Supervisors and Senior Management, Basis for Determining the Remuneration and the Actual Remunerations Paid

Remuneration of Directors and Senior Management of the Bank are approved and paid in accordance with the rules of relevant authorities as well as *the Articles of Association of the Bank*. The remuneration plan for Directors and Senior Management members is reviewed by the Remuneration Committee of the Board of Directors before it is submitted to the Board of Directors for approval. The remuneration plan for directors is further subject to the shareholders' general meeting for approval.

Remuneration of Supervisors of the Bank is verified and paid in accordance with the rules of relevant authorities and *the Articles of Association of the Bank*. The remuneration plan is reviewed by the Nomination Committee of the Board of Supervisors and then is considered by the Board of Supervisors, before it is subject to the shareholders' general meeting for approval.

Please refer to the table "Profile of Directors, Supervisors and Senior Management" for the detailed remuneration of Directors, Supervisors and Senior Management for 2016.

## VI. Positions Held in Shareholder Company by Directors, Supervisors and Senior Management Members

Name	Name of shareholder	Title	Term
Mr. Tang Shuangning	China Everbright Group Limited	Secretary of CPC Committee, Chairman	Jun. 2007 to the present
	China Everbright Group Holdings Limited	Chairman	Jul. 2007 to the present
	China Everbright Limited	Non-Executive Director	Dec. 2016 to the present
Mr. Gao Yunlong	China Everbright Group Limited	Vice Chairman, General Manager	Jul. 2014 to the present
Mr. Zhang Jinliang	China Everbright Group Limited	Member of CPC Committee	Jan. 2016 to the present
		Executive Director	Mar.2016 to the present
Mr. Zhang Shude	CHI	Designated Director	Sep. 2016 to the present
	China Everbright Group Limited	Director	Jun.2016 to the present
Mr. Li Huaqiang	CHI	Designated Director	Sep.2016 to the present
	China Everbright Group Limited	Director	Jun.2016 to the present
Mr. Zhao Wei	China Reinsurance (Group) Corporation	Assistant President	Sep.2015 to the present
Mr. Yin Lianchen	China Everbright Limited	Chief Investment Officer	Apr. 2012 to the present
Mr. Wu Junhao	Shenergy (Group) Co., Ltd.	Manager of Financial Management Department	Apr. 2011 to the present

## VII. Working Experience, appointment and concurrent appointment of Directors, Supervisors and Senior Management

### (I) Directors

Mr. Tang Shuangning Mr. Tang joined the Bank as Chairman of the Board of Directors in July 2007. Currently, he is also Chairman of China Everbright Group Limited, Chairman of the Board of Directors of China Everbright Holdings Company Limited, Non-Executive Director of China Everbright Limited, Non-Executive Director of China Everbright International Limited, member of the Board of Directors of Everbright Securities Co., Ltd. and member of the Board of Directors of Sun Life Everbright Life Insurance Co., Ltd. He was Deputy General Manager of Shenyang Branch of China Construction Bank (“CCB”), Deputy General Manager and General Manager of Shenyang Branch of the People’s Bank of China (“PBC”) and Deputy Director-General and Director-General of Shenyang Branch of State Administration of Foreign Exchange. He served successively as Director-General of the Credit Management Department of the PBC, Director-General of the Currency, Gold and Silver Bureau of the PBC and Director-General of the First Banking Supervision Department of the PBC. From April 2003 to June 2007, he was Vice Chairman of CBRC. He was also Vice President of the China Society for Finance and Banking and Advisor of the Investment Association of China as well as Executive Director of China Economic and Social Council and China Center for International Economic Exchanges. He is a graduate of Dongbei University of Finance and Economics, holds a master’s degree in investment economics, and is a senior economist. He has been a member of the Eleventh National Committee of the Chinese People’s Political Consultative Conference (“CPPCC”), a delegate to the Eighteenth National Congress of the Communist Party of China (“CPC”), a delegate to the Twelfth National People’s Congress and Vice Chairman of the Agriculture and Villages Committee of the National People’s Congress. He is a recipient of the “Special Government Allowance” by the State Council of China.

Mr. Gao Yunlong Mr. Gao has served as Vice Chairman of the Bank since December 2014. He currently serves as Vice Chairman and General Manager of China Everbright Group Limited, Director of Everbright Securities Co., Ltd and Director of Sun Life Everbright Life Insurance Co., Ltd. From 1994 to June 2014, he successively served as Deputy Division Head and Division Head in China Development Bank, Deputy Mayor of Baise of Guangxi Zhuang Autonomous Region, Vice Chairman and Chairman of Guangxi Zhuang Autonomous Region of China National Democratic Construction Association (“CNDCA”), Deputy Governor of Qinghai Province, Chairman of Qinghai Province of CNDCA, Executive Director and Deputy General Manager of China Everbright (Group) Corporation. He graduated from Tsinghua University with a doctoral degree in chemical engineering. He is a senior engineer, professor and tutor for MA candidates at Tsinghua University. He is also a member of the Eleventh and the Twelfth National Committee of the CPPCC.

Mr. Zhang Jinliang Mr. Zhang has become the Executive Director of the Bank since August 2016. He currently also serves as a Deputy Secretary of the CPC Committee and President of the Bank, a member of the CPC Committee and Executive Director of China Everbright Group Limited. He served as Executive Vice President of Bank of China from July 2014 to January 2016. He served as General Manager of the Beijing Branch of Bank of China from November 2009 to December

2014. He had worked in the Financing and Accounting Department of the Head Office of Bank of China for many years. From February 2007 to November 2009, he served as General Manager of Financial Management Department of the Head Office of Bank of China. From October 2003 to February 2007, he served as Deputy General Manager of the Finance and Accounting Department of the Head Office of Bank of China, and also served as General Manager of the IT Blueprint Implementation Office from March 2005 to February 2007. He obtained his doctorate in economics from Xiamen University in September 1997. He is a certified public accountant.

Mr. Ma Teng Mr. Ma has been Executive Director of the Bank since March 2015. He currently serves as Deputy Secretary of the CPC Committee and Executive Vice President of the Bank, and concurrently as Chairman of the Board of Directors of CEB International Investment Corporation Limited. From December 2010 to December 2014, he was a member of the CPC Committee and Executive Vice President of the Bank. From November 2009 to December 2010, he served as General Manager of the Financial Management Department of China Everbright (Group) Corporation. From March to November 2009, he was a member of CPC Committee of China Everbright Industry Group Ltd. From June 2005 to February 2009, he was the Deputy Secretary of CPC Committee and Director and Chief Executive Officer of China Bohai Bank. From July 1984 to June 2005, he served as Secretary of the CPC Committee, and General Manager of Peony Card Center and General Manager of Bank Card Department in the ICBC; he also served as Secretary of the CPC Committee and President of Hebei Branch, Secretary of the CPC Committee and President of Wuhan Branch and Deputy Director of General Office of the Head Office of ICBC. He graduated from Dongbei University of Finance and Economics with a bachelor's degree in economics and a doctoral degree in political economics from Zhongnan University of Economics and Law. He holds a certificate of senior economist.

Ms. Li Jie Ms. Li has served as Executive Director of the Bank since September 2016. Ms. Li, member of the CPC Committee and Executive Vice President of the Bank, also concurrently serves as Director of China UnionPay Co., Ltd., Sun Life Everbright Life Insurance Co., Ltd. and Everbright Jin'ou Asset Management Limited. She was the General Manager of the Planning and Finance Department (the Finance and Accounting Department) of the Bank. From October 1988 to April 2001, she worked at different positions in Bank of Communications Co., Ltd. ("BOCC"), including Deputy Chief of the Planning Division of Jinan Branch of BOCC, Chief of the Finance and Accounting Division of Jinan Branch of BOCC, Deputy General Manager of Jinan Branch of BOCC, and Deputy General Manager and General Manager of Zhuhai Branch of BOCC. She worked in Huaiyin Office of Jinan Branch of Industrial and Commercial Bank of China ("ICBC") and in Huaiyin Office of Jinan Branch of the People's Insurance Company of China. From August 1983 to July 1986, she attended the Open University of China, majoring in finance. She is an accountant.

Mr. Zhang Shude Mr. Zhang has served as Non-Executive Director of the Bank since September 2016. Mr. Zhang currently works at Central Huijin Investment Ltd. ("CHI"), and concurrently serves as Director of China Development Bank, China Everbright Group Limited and China Development Bank Securities Co., Ltd. From August 1987 to May 1992, he was research analyst and deputy director of Shanghai Institute of Finance of PBC. From June 1992 to April 1994, he was deputy manager of marketing department of Shanghai Foreign Exchange Transaction Centre,

head of General Affairs Department of China Foreign Exchange Trading Centre. From May 1994 to August 2008, he was Senior Director of Shanghai Branch of Bank of East Asia, Deputy General Manager of International Business Department of Shanghai City Cooperative Bank and General Manager of International Business Department of Bank of Shanghai and Secretary of the Board of Bank of Shanghai. He graduated from the postgraduate program in Fudan University, majoring in law. He holds a bachelor's degree.

Mr. Li Huaqiang Mr. Li has served as Non-Executive Director of the Bank since September 2016. Mr. Li currently works at CHI while serving as director of China Everbright Group Limited. From September 1982 to July 1990, he served successively as an engineer of Zhuzhou smelter factory of China National Nonferrous Metals Industry Corporation, the Deputy Secretary of the Communist Youth League Committee of the Main Plant, Vice Director of the Second Plant and General Manager of the joint venture in Shenzhen. From July 1990 to March 1997, he served as Assistant General Manager and Department Director of Shenzhen Science and Industry Park Corporation Joint Venture Shenzhen (Moscow). From March 1997 to June 2002, he was the Deputy General Manager of the Investment Banking Department of Guosen Securities Company Limited. From June 2002 to September 2004, he served as Chairman of the Board of Directors, Secretary of the CPC Party Committee and President of Founder Securities Limited. He was the Vice President of Huaxi Securities Company Limited from September 2004 to January 2007 and President and Deputy Secretary of the CPC Party Committee of China Lion Securities Company Limited from January 2007 to February 2011. From March 2011 to October 2012, he was a Designated Director of CHI (serving at China Investment Securities Company Limited). From November 2012 to September 2016, he was the Vice Chairman of the Board of Directors of China Securities Co., Ltd. From December 2011 to August 2015, he was Head of the First Division of Equity Management of Securities Institutions of Securities Institution Management Department/Insurance Institution Management Department of CHI. He holds a Master's Degree of EMBA from Peking University.

Mr. Zhao Wei Mr. Zhao became Non-Executive Director of the Bank in February 2015. He is currently the Assistant President of China Reinsurance (Group) Co., Ltd., Secretary of CPC Committee, Vice Chairman of the Board of Directors and General Manager of China Re Asset Management Co., Ltd., Chairman of the Board of Directors of China Re Asset Management (Hong Kong) Co., Ltd., and member of the council of Asia Reinsurance Corporation. From March 2003 to April 2012, he successively served as the General Manager of China Life Insurance (Hong Kong) Asset Management Co., Ltd., President of China Life Franklin Asset Management Co., Limited, Vice President of New China Asset Management Co., Ltd., and Deputy Secretary of CPC Committee of China Re Asset Management Co., Ltd. He graduated from the Research Institute for Fiscal Science of the Ministry of Finance with a doctoral degree in economics.

Mr. Qiao Zhimin Mr. Qiao became Independent Non-Executive Director of the Bank in January 2013. He is concurrently independent director of Wuhan Rural Commercial Bank. He had worked for Bank of China ("BOC") from February 1978 to July 1996 and served at various positions in BOC, including Deputy Division Director of the Finance and Accounting Department of the Head Office, Deputy General Manager of Luxemburg Branch and Deputy General Manager of the General Planning Department of the Head Office. Mr. Qiao had also worked for the PBC from July 1996 to July 2003 and served at various positions, including Deputy Director-General of



the Accounting Department and Deputy Director-General of the First Banking Supervision Department. He also served as Chief of Regulation Team (Director-General level) for ICBC. He was Director of the Finance and Accounting Department of CBRC from July 2003 to January 2007. Mr. Qiao was appointed as Vice Chairman of the Fourth Session of the Supervisory Board and Chairman of the Fifth Session of the Supervisory Board for China Minsheng Banking Corp., Ltd. from January 2007 to April 2012. Mr. Qiao graduated from Hunan College of Finance and Economics and majored in finance. He holds a master degree and a certificate of senior accountant.

Mr. Xie Rong Mr. Xie became Independent Non-Executive Director of the Bank in January 2013. He is a professor of Shanghai National Accounting Institute- and concurrently serves as Director of Shanghai Automotive Industry Corporation and Shanghai Electric (Group) Corporation, and Independent Director of Shenwan Hongyuan Group Co., Ltd., China Traditional Chinese Medicine Co., Ltd, Shanghai Bairun Investment Holding Group Co., Ltd and Shanghai International Trust Corp. Ltd. Mr. Xie was Independent Director of China CITIC Bank. He served as Associate Professor, Professor, Doctorial Tutor and Deputy Head of Accounting Institute of Shanghai University of Finance and Economics from December 1985 to December 1997. During that period, Mr. Xie visited and conducted research at University of Warwick in the United Kingdom for one year and became a part-time certified accountant of Da Hua Certified Public Accountants and Pricewaterhouse Da Hua Certified Public Accountants. He became a partner of KPMG Huazhen Certified Public Accountants from December 1997 to October 2002 and Professor and Deputy Dean of Shanghai National Accounting Institute from October 2002 to August 2012. Mr. Xie graduated from Shanghai University of Finance and Economics and majored in accounting. He holds a doctoral degree in economics and is a senior non-practicing certified public accountant. Mr. Xie is a recipient of the “Special Government Allowance” by the State Council.

Ms. Fok Oi Ling Catherine Ms. Fok became an Independent Non-Executive Director of the Bank in January 2014. Currently, she is a consultant of Siya International Consultancy Service Co. Ltd., a senior member of the Hong Kong Institute of Directors, a voting member of the Hong Kong Professionals and Senior Executives Association and a member of its Finance and Economics Group and Economic Affairs Committee, and a member of the Hong Kong Women Professionals & Entrepreneurs Association. From 1981 to 2006, she served successively in the Hong Kong and Shanghai Banking Corporation Limited (“HSBC”) as Manager of the International Trade Financing Division and the Commercial Credit Division, Regional Director of industrial and commercial banking and trade finance, Chief of the Risk Management Department of retail banking, and Regional Director of retail banking and Director of wealth management and investment products for the retail banking business. From 2010 to 2012, she served as Director of business integration of Asia-Pacific Region of HSBC, and a marketing and management advisor to the retail banking business of Bank of Communications Co., Ltd. (“BOCC”). She was Honorary Chairman of the Hong Kong Chamber of Commerce in China - Shanghai. She holds a master’s degree in business administration from the Chinese University of Hong Kong. She is an associate of the Hong Kong Institute of Bankers and a certified financial management planner.

Mr. Xu Hongcai Mr. Xu has become an Independent Non-Executive Director of the Bank since February 2015. He is currently Deputy Chief Economist of the China Center for International Economic Exchanges, a researcher and a visiting scholar of the University of British Columbia,

Canada. From June 1998 to March 2010, he successively served as Deputy General Manager at Shanghai Office of GF Securities, Vice President at Beijing Venture Capital Co., Ltd. and Professor of Capital University of Economics and Business. From July 1996 to June 1998, he worked in Financial Claims Office of the Head Office of PBC. From July 1981 to September 1990, he served as an assistant engineer of the China National Petrochemical Corp. He graduated from the Chinese Academy of Social Sciences Graduate School and received a doctorate in economics in July 1996. He graduated from Renmin University of China with a master's degree in philosophy in July 1993. From September 1978 to July 1981, he majored in organic chemical engineering in Anhui Chemical Engineering School.

Mr. Feng Lun Mr. Feng became Independent Non-Executive Director of the Bank in February 2015. He is Chairman of Vantone Group, and Chairman of the Board of Directors of Vantone Investment Holdings Co., Ltd. He obtained a bachelor's degree in economics from Northwest University, a master's degree in law from the Party School of the Central Committee of CPC, a doctoral degree in law from the Graduate School of China Academy of Social Sciences and a Master of Public Policy (MPP) degree from Lee Kuan Yew School of Public Policy at the National University of Singapore. Since 1984, he served as a lecturer of the Party School of the Central Committee of CPC, the deputy department director of the Research Institute of the State Economic System Reform Commission, Senior Vice President of the Research Centre of the Hainan Reform and Development Research Institute and Director of China Minsheng Banking Corp., Ltd. He founded the Vantone Group in 1991 and has been the Chairman of the Board of Directors of Vantone Group to date.

Mr. Wang Ligu Mr. Wang has been an Independent Non-Executive Director of the Bank since January 2017. He currently works as a Professor (National Second Class) of the Dongbei University of Finance and Economics, a doctoral tutor, Chief Expert of major bidding project of National Social Science Fund, Director of China Investment Association, an Executive Director of construction economics branch of China Construction Industry Association, Vice Chairman of Dalian Engineering Consulting Association and Chairman of Dalian Yadong Investment Consulting Co., Ltd. He has served as Dean of the School of Investment Engineering Management, Dongbei University of Finance and Economics and a member of the Evaluation Committee of Higher Education Engineering Management of the Ministry of Housing and Urban-Rural Development.

## (II) Supervisors

Mr. Li Xin Mr. Li has served as Supervisor of the Bank since May 2015, and became Chairman of the Board of Supervisors of the Bank in June 2015. He successively served as an assistant engineer of Beijing 304 Research Institute of the Ministry of Aviation Industry, secretary of the General Office of the Ministry of Aviation Industry, secretary, secretary (deputy section chief level), secretary (section chief level) and Deputy Director of the Secretariat of the General Office of the Ministry of Finance, Head of Section 1 of Economic Affairs Department of Xinhua News Agency Hong Kong Branch, Deputy Managing Director of Good Ocean Development Limited in Hong Kong, Deputy Director of the General Office and Head of Finance Division of Commission of Science, Technology and Industry for National Defense, Director of Human Resources Department, Chief of Organization Department of the CPC Committee and Senior Managing

Director of China Investment Corporation, and concurrently served as Employee Representative Director of China Investment Corporation, Deputy Secretary of CPC Working Committee of China Investment Corporation, and Vice Chairman of the Working Committee of the Labour Union of China Investment Corporation. He graduated from Shenyang Aviation Industrial College with a bachelor's degree in aviation machinery processing technology.

Mr. Yin Lianchen Mr. Yin has become a member of the Board of Supervisors since December 2014. He is currently Chief Investment Officer of China Everbright Limited and Director of Everbright Securities Co., Ltd. Since April 2002, he successively served as General Manager of Corporate Administration Department, Director of Securities Brokerage Department and Director of Corporate Communications Department of China Everbright Limited, Chief Representative of China Desk of Moody's KMV, Deputy General Manager of Beijing Yonder Investment Group, Division Chief in the Executive Office of China Everbright (Group) Corporation and Assistant General Manager of China Everbright Limited. He graduated from Nankai University with a master's degree in western financial accounting.

Mr. Wu Junhao Mr. Wu became a member of the Board of Supervisors in November 2009. He is Manager of the Financial Management Department of Shenergy Group Limited and also serves as Director of Orient Securities Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. He was Executive Deputy General Manager of Shanghai New Resources Investment Consulting Company, Deputy General Manager of Shanghai Bailitong Investment Company, Deputy Director of Shanghai Shenergy Asset Management Co., Ltd., Deputy Director, Director and Senior Director of the Asset Management Department and Deputy (Acting) Director of Financial Management Department of Shenergy (Group) Co., Ltd. He graduated from East China Normal University and later obtained a master's degree in enterprise management at East China Normal University.

Mr. Yu Erniu Mr. Yu became External Supervisor of the Bank in November 2012. He is also independent director of the First-Trust Fund Management Co., Ltd. and Hithink Flush Information Network Co., Ltd., and Director of Shanghai Benemae Pharmaceutical Corporation. He served as a staff member and Deputy Director-General and Director-General of the Department of Personnel and Education of the Ministry of Finance. Mr. Yu was appointed as Designated Director of CHI to BOC, a member of the Board of Directors, Director of the Human Resource Department, Chief of the Organization Department of the CPC Committee and Chairman of the Labor Union of China Investment Corporation. He is a graduate of economic management studies from the PLA Air Force Political College majoring in economic management. He also obtained a master's degree in economic laws from Capital University of Economics and Business.

Mr. Wu Gaolian Mr. Wu became an External Supervisor of the Bank in June 2016. He has successively served as a committee member of County Committee, Deputy County Magistrate and Deputy Managing County Magistrate of Fusong County, Jilin, General Manager of Tonghua Branch, Jilin, Deputy General Manager of Jilin Branch, General Manager of Guangxi Branch and General Manager of Liaoning Branch of the People's Insurance Company (The People's Insurance (Property) Company of China, Ltd.), Vice President of the People's Insurance Company (Group) of China (People's Insurance Company of China Holdings Company), Director and President of China Reinsurance (Group) Corporation, Director of China Everbright Bank Company Limited and

Director of China Everbright Group Limited. He graduated from Graduate School of Chinese Academy of Social Sciences with Monetary and Banking major. He holds a master's degree and is a senior economist.

Mr. Deng Ruilin Mr. Deng became an External Supervisor of the Bank in June 2016. He has successively served as Deputy Director and Director of Guizhou Branch of PBC, CPC Committee Secretary and President (temporary post) of Zunyi Branch of PBC, Vice President and member of Party Committee of Guizhou Branch of PBC, member of CPC Committee and Commissioner of Chengdu Branch of PBC, Party Committee Secretary and Head of Guizhou Regulatory Bureau of CBRC and independent director of Industrial Bank Co., Ltd.. He graduated from Graduate School of Chinese Academy of Social Sciences with Monetary and Banking major. He holds a master's degree and is a senior economist.

Mr. Wang Zhe Mr. Wang became an External Supervisor of the Bank in November 2016. He is currently Secretary General of Association of Shanghai Internet Financial Industry and serves concurrently as Vice President of Shanghai Financial Association and an independent director of Shanghai Pudong Development Bank. He successively served as a staff member of Monetary Division and Deputy Section Chief of General Office of PBC. He successively served as Manager of China Gold Coin Shenzhen Commercial Centre, Vice President of Shenzhen Branch of China CITIC Bank, General Manager of China Gold Coin Shenzhen Commercial Centre and Deputy General Manager of China Gold Coin Incorporation. He served as General Manager, Chairman and Party Secretary of Shanghai Gold Exchange and CPC Committee Secretary of China Foreign Exchange Trade System. He graduated from Southwestern University of Finance and Economics majoring in Business Administration and holds a master's degree.

Mr. Ye Donghai Mr. Ye became an employee supervisor in November 2012 and is currently General Manager of the Audit Department of the Bank. Mr. Ye served as a teacher of Beijing College of Geological Management Cadres and worked at various positions in Beijing Normal University, including section member of the Financial Department, Section Head and Deputy Head of the Planning Department. He also served at various positions in the Bank, including Assistant General Manager (Deputy General Manager level) of the Planning and Finance Department, Deputy (Acting) General Manager of the Finance and Accounting Department, Deputy General Manager of Tianjin Branch, and Deputy (Acting) General Manager and General Manager of the Audit Department of the Bank. Mr. Ye graduated from Renmin University of China and holds a master's degree in economics. He is a senior accountant.

Ms. Liu Yan Ms. Liu became an employee supervisor of the Bank in June 2016. She currently serves as Deputy General Manager of the Asset and Liability Management Department of the Bank. She successively served as senior business staff, associate business manager of the Planning and Finance Department of the Banking Department of the Bank, associate business manager and division chief of Management Accounting Division of the Planning and Finance Department of the Head Office of the Bank, Deputy Director (Assistant General Manager of the Department of Head Office level) of the East Audit Center of the Bank, a member of CPC committee and Deputy General Manager of Shanghai branch and so on. Ms. Liu graduated from Northern Jiaotong University with a master's degree and she is a certified public accountant.

### (III) Senior Management

Mr. Zhang Jinliang Please refer to the section “Directors”.

Mr. Ma Teng Please refer to the section “Directors”.

Ms. Li Jie Please refer to the section “Directors”.

Mr. Zhang Huayu Mr. Zhang became Executive Vice President of the Bank in March 2007 and a member of the CPC Committee of the Bank in February 2006. He has concurrently served as Chairman of Everbright Financial Leasing Co., Ltd. since July 2014 and Chairman of Everbright Technology Co., Ltd. since December 2016. Mr. Zhang joined the Bank in February 2001. He successively served as Assistant President of the Bank and General Manager of the Banking Department of the Head Office. From November 1994 to February 2001, he worked at various positions of BOCC, including Division Chief for Credit Management Division of the Credit Approval Department of Zhengzhou Branch of BOCC, and Deputy General Manager and General Manager of Xi’an Branch of BOCC. He was Director of the General Office of Shangqiu Regional Branch of the PBC in Henan Province, General Manager of Xiayi County Sub-Branch of the PBC in Shangqiu regional and Director of the Urban Credit Union in Shangqiu region. He is a graduate of Hunan College of Finance and Economics and holds a master’s degree in economic management of University of International Business and Economics. He holds a certificate of senior economist.

Mr. Lu Hong Mr. Lu became Executive Vice President of the Bank in December 2010, and a member of the CPC Committee of the Bank in March 2009. He has concurrently served as the Secretary of the Board of the Bank since December 2016. He joined the Bank in 1994 and served at various positions of the Bank, including Manager of the Securities Department, Division Chief in the Executive Office for the Board, Assistant General Manager of the Planning and Treasury Department, General Manager of the Planning and Finance Department of Beijing Branch of the Bank, Deputy General Manager of the Finance and Accounting Department, Deputy General Manager and General Manager of Planning and Finance Department and Secretary of the Board of Directors. He was an engineer in the Planning Institute of the Ministry of Railways and Business Manager in the Investment Banking Department of Huaxia Securities Co., Ltd. He is a graduate of Shanghai Railway Institute and holds a master’s degree in railway engineering and a doctoral degree in applied economics of Xi’an Jiaotong University. He holds a certificate of senior economist.

Mr. Wu Jian Mr. Wu became Executive Vice President of the Bank in December 2014, a member of the CPC Committee of the Bank in January 2014, and has concurrently served as General Manager of Beijing Branch from October 2016 and Secretary of CPC Committee (since September 2016). In December 1997, he joined the Bank, and successively served as Deputy General Manager (Acting) of Market Development Department of the Head Office, General Manager of Credit Card Business Department, Deputy General Manager of Nanjing Branch, General Manager of Retail Banking Department, General Manager of R&D Department, General Manager of Strategic Management Department, General Manager of Shenyang Branch, General Manager of SME Business Department and General Manager of Human Resources Department and Secretary of Committee of Disciplinary Inspection (Executive Vice President level). From October

1996 to December 1997, he was Director of Comprehensive Analysis Division of Balance of Payments Department of SAFE. From October 1995 to October 1996, he served as Section Chief of Foreign Capital Management Center of the State Council Poverty Alleviation Office. From 1987 to 1995, he worked at the Research Division of General Office of the NPC Standing Committee, and successively served as Vice Director of Economic Research Team (Deputy Division Chief level) and Director (Division Chief level). In 1982, he graduated from Shanghai Jiaotong University with a bachelor's degree in engineering. In 1987, he graduated from Renmin University of China with a master's degree in economics. Mr. Wu holds a professional title of Assistant Researcher.

Mr. Yao Zhongyou Mr. Yao has served as Executive Vice President of the Bank since August 2014 and a member of the CPC Committee of the Bank since May 2014. From November 2009 to May 2014, he served successively as Deputy General Manager of the Equity Management Department of China Everbright (Group) Corporation, Executive Director, a member of the CPC Committee and Vice President of Everbright Financial Holding Asset Management Co., Ltd. as well as General Manager of the Financial Management Department of China Everbright (Group) Corporation. From July 1984 to November 2009, he served successively as a staff member and Deputy Manager of the International Banking Department of Hebei Branch of China Construction Bank ("CCB"), the General Manager and Secretary of the CPC Committee of Chengde Branch of CCB, Director of the General Office, the Deputy General Manager and a member of the CPC Committee of Hebei Branch of CCB. He graduated from Wuhan University and holds a master's degree. He holds a certificate of senior economist.

Mr. Huang Haiqing Mr. Huang became a member of the CPC Party Committee and Secretary of the Discipline Inspection Commission (Vice President level) of the Bank in June 2016. From December 2008 to June 2016, he successively served as Assistant Mayor, Vice Mayor and member of the CPC Committee of Xi'an city. From March 2002 to December 2008, he served as Deputy General Manager of the Banking Department of Head Office and Deputy General Manager of Pudong Branch of Bank of Shanghai. From August 1982 to March 2002, he successively served as Deputy Chief of Jiangxi Province Yichun Area Hardware, Electric Material and Chemical Equipment Company, Director of the Xinhua North Office of Haikou branch, Deputy Director of the Deposits Department and Deputy Director (division chief level) of the General Office of Hainan Province Branch of the Industrial and Commercial Bank of China, Senior Manager of the General Management Department, Director of CPC Committee Office and Secretary of Organization Department of CPC Committee of the Haikou Office of the China Huarong Asset Management Co., Ltd. Mr. Huang graduated from Southwest University of Finance and Economics. He holds a Doctor's degree in Economics and a certificate of senior economist.

Mr. Sun Qiang Mr. Sun became Assistant President of the Bank in January 2017 and a member of the CPC Committee of the Bank in August 2016. He has joined the Bank since 1997. He successively served as Deputy General Manager of Zhuhai sub-branch of Guangzhou branch, General Manager of Shantou sub-branch, Assistant General Manager Inspection and Security Department of Head Office of the Bank, Assistant General Manager and Deputy General Manager of Corporate Banking Department, Deputy General Manager (Acting) and General Manager of the Financial Institutions Department and General manager of the Corporate Banking Department. He used to work in Survey and Statistics Department and General Office of the People's Bank of China

(PBC), the State Administration of Foreign Exchange (SAFE) and the PBC of Shantou City Branch in Guangdong Province. Mr. Sun graduated from Peking University with a bachelor's degree in professional probability and statistics. He then acquired a master's degree in Money and Banking from Renmin University of China.

## **VIII. Directors' and Supervisors' Interests in Competing Business**

None of the Directors and Supervisors of the Bank had interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Bank.

## **IX. Financial, Business and Kinship Relationships among Members of the Board of Directors**

Saved as disclosed in this report, there is no financial, business, kinship relationships or other material relationships among the members of the Board of Directors.

## **X. Directors' and Supervisors' Interests in Contracts and Service Contracts**

None of the Directors or Supervisors of the Bank or related parties had any material interest in any material transaction, arrangements and contracts to which the Bank or any of its subsidiaries was a party during the reporting period. None of the Directors or Supervisors of the Bank entered into any service contract, pursuant to which the Bank shall compensate to director or supervisor if the contract for each year is terminated for the Bank's reason (excluding statutory compensation).

## **XI. Employees**

### **(I) Overview**

As at the end of the reporting period, the Bank had 42,250 employees (exclusive of those of subsidiaries) and 657 retired employees. In terms of educational background, 7,627 incumbent employees hold a junior college degree or below, accounting for 18.05% of the total employees, 29,141 incumbent employees hold a bachelor's degree, accounting for 68.97%, and 5,482 incumbent employees hold a postgraduate degree or above, accounting for 12.98%. In terms of profession, there were 8,061 employees in the corporate banking business, accounting for 19.08%; 16,362 employees in the retail banking business (including the credit card business and e-banking business), accounting for 38.73%; 11,126 operation support staff (including tellers), accounting for 26.33%; 6,701 general management and support staff, accounting for 15.86%.

### **(II) Remuneration policies for employees**

In response to market competition, the Bank has established a unified remuneration system which emphasizes both "efficiency and fairness". The remuneration of employees is comprised of three components, namely basic salary, performance-based bonus and benefits. The Bank's remuneration policies continued to give preferential treatment to frontline employees and profit centers to attract and motivate key and core personnel.

### (III) Training plans

In order to improve the effectiveness of training, the Bank actively explored new training methods and improved the input-output ratio of the Bank's expenditure on its staff training. The Bank continued to promote the training program of "Sunshine Platform" and trained 150 internal trainers in 2016 and designed nearly 150 micro-courses of case study. The Bank reviewed and improved its existing training curriculum which now includes 503 E-Learning (network education platform) courseware, 212 mobile micro-courses, and the mobile learning platform "Sunshine E-classroom". The Bank continued to carry out senior management training project, actively promoted training programs for overseas talents and new employees recruited from campus and held various types of business training projects. In 2016, following the training management strategy of "centralized management at the head office and training implementation at branches and departments", 6,686 training sessions covering management, business, products were held with a participation of total 372,561 person-times, including 1,717 person-times of senior officers of the Bank.

### (IV) Employees of main subsidiaries

As at the end of the reporting period, Everbright Financial Leasing Co., Ltd. had 100 formal employees, including 22 administrative staff, 49 business staff and 29 supporting staff, with 96% of them holding a bachelor's degree or above.

Shaoshan Everbright Village Bank Co., Ltd. had 29 employees, including 7 administrative staff, 8 business staff and 14 supporting staff, with 69% of them holding a bachelor's degree or above.

Jiangsu Huai'an Everbright Village Bank Co., Ltd. had 33 employees, including 13 administrative staff, 13 business staff and 7 supporting staff, with 97% of them holding a bachelor's degree or above.

CEB International Investment Corporation Limited had 47 employees, including 4 administrative staff, 21 business staff and 22 supporting staff, with 85% of them holding a bachelor's degree or above.

## **XII. Institutions**

During the reporting period, the Bank continued to step up its efforts in establishing more domestic branches and outlets. Xining (tier-1) Branch received operating qualification and 8 tier-2 branches in Baoding, Zhenjiang, Ganzhou, Rizhao, Huanggang, Yiyang Branch, Fujian Pilot Free Trade Zone Xiamen Regional Branch and Guangdong Pilot Free Trade Zone Qianhai Shenzhen Branch commenced operation. Meanwhile 63 banking outlets were open for business. As at the end of the reporting period, the Bank had 1,119 branches and outlets in 115 economic center cities of 30 provinces, autonomous regions and municipalities, including 38 tier-1 branches, 76 tier-2 branches and 1,005 outlets (including sub-branches in different cities, county level sub-branches, sub-branches in the same city and banking department of branches). The Bank accelerated the plan



of setting up overseas institutions. Seoul branch officially commenced operation. Application for establishing CEB Luxembourg branch has been approved by CBRC. As at the end of the reporting period, the Bank had 2 overseas branches in Hong Kong and Seoul.

Details of the Bank's employees and business outlets are as follows:

Name of Branch	Number of Outlets	Number of employees	Total assets (RMB million)	Address
Head office	1	3,899	2,645,476	Everbright Center, No. 25, Taipingqiao Avenue, Xicheng District, Beijing
Beijing Branch	68	2,931	513,818	No. 1, Xuanwumen Neidajie, Xicheng District, Beijing
Shanghai Branch	55	1,941	219,545	China Everbright Bank Building, No. 1118, Shiji Ave., Pudong New District, Shanghai City
Tianjin Branch	34	1,187	71,797	Annex Building of Zhonglian Building, No. 83, Qufu Ave., Heping District, Tianjin City
Chongqing Branch	27	1,080	76,511	No. 168, Minzu Road, Yuzhong District, Chongqing City
Shijiazhuang Branch	46	1,335	78,819	No. 56, Yuhua East Road, Qiaodong District, Shijiazhuang City
Taiyuan Branch	33	1,167	66,365	No. 295, Yingze Road, Yingze District, Taiyuan City
Huhhot Branch	17	595	34,287	Tower D, Dongfangjunzuo, Chilechuan Road, Saihan District, Huhhot, Inner Mongolia Autonomous Region
Dalian Branch	23	743	63,773	No. 4, Wuwu Road, Zhongshan District, Dalian City
Shenyang Branch	33	1,185	63,224	No. 156, Hepingbei Street, Heping District, Shenyang City
Changchun Branch	30	882	46,365	No. 2677, Jiefang Road, Chaoyang District, Changchun City
Heilongjiang Branch	37	1,118	37,741	No. 278, Dongdazhi Street, Nangang District, Harbin City
Nanjing Branch	38	1,307	168,895	No. 120, Hanzhong Road, Gulou District, Nanjing City
Suzhou Branch	20	888	71,619	No. 188, Xinghai Street, Industrial Park District, Suzhou City
Wuxi Branch	7	328	59,385	No. 1, Renmin Zhonglu, Wuxi City
Hangzhou Branch	34	1,309	98,826	Zheshang Times Building, No. 1, Miduqiao Road, Gongshu District, Hangzhou City
Ningbo Branch	19	833	55,440	No. 1 Building, Hengfu Plaza, No. 828, Fuming Road, Jiangdong District, Ningbo City
Hefei Branch	41	1,408	109,837	No. 200, Changjiang Xilu, Hefei City
Fuzhou Branch	35	1,328	61,289	No. 148, Beihuan Middle Road, Gulou District, Fuzhou City
Xiamen Branch	15	555	50,925	China Everbright Bank Building, No. 81, Hubin South Road, Xiamen
Nanchang Branch	19	665	55,083	No. 399, Guangchang South Road, Nanchang
Jinan Branch	26	905	61,674	No. 85, Jingqi Road, , Jinan City

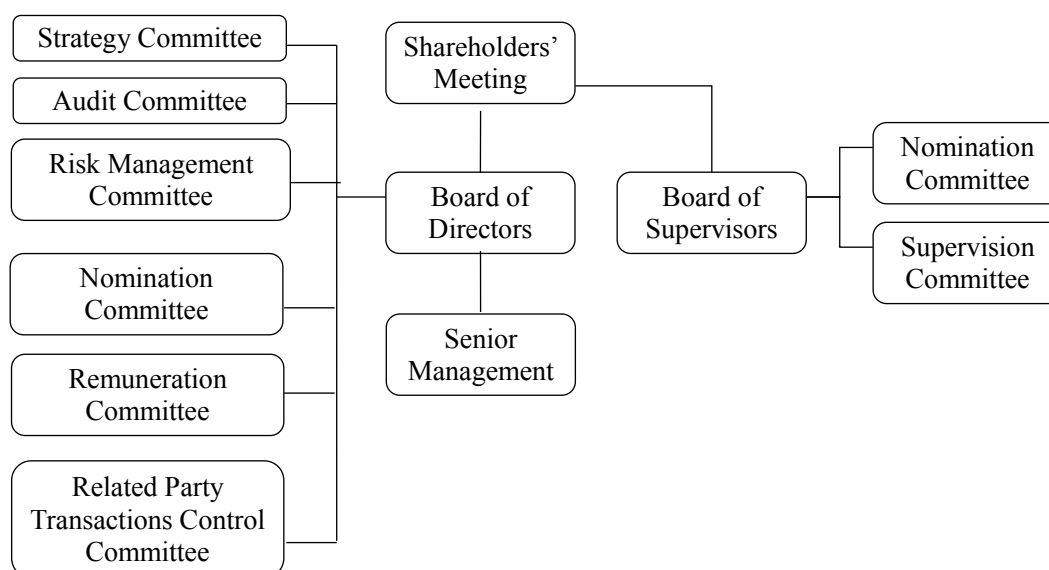
Name of Branch	Number of Outlets	Number of employees	Total assets (RMB million)	Address
Qingdao Branch	33	1,060	81,579	No. 69, Hongkong West Road, , Qingdao
Yantai Branch	13	511	29,084	No. 111, Nandajie, , Yantai
Zhengzhou Branch	45	1,381	87,215	No. 18, Nongye Road, , Zhengzhou
Wuhan Branch	32	1,123	58,229	No. 143-144, Yanjiang Ave., Jiang'an District, Wuhan
Changsha Branch	53	1,291	85,158	No. 142, Third Section of Furong Middle Road, Tianxin District, Changsha
Guangzhou Branch	81	2,441	164,828	No. 685, Tianhe Beilu, Guangzhou
Shenzhen Branch	49	1,239	173,410	No. 18, Zizhu Qidao, Zhuzilin 4th Road, Shenzhen City
Nanning Branch	25	917	44,688	Oriental Mahatton Mansion, No. 52-1, Jinhu Road, Nanning
Haikou Branch	20	747	49,086	Ground Floor, World Trade Center D/E, Shimao East Road, Jinmao District, Haikou City
Chengdu Branch	24	964	70,026	No. 79, Dacisi Road, Chengdu
Kunming Branch	23	807	35,630	No. 28, Renmin Middle Road, Kunming City
Xi'an Branch	35	1,095	73,621	No. 33, Hongguang Street, Xi'an
Urumqi Branch	6	191	9,346	No. 165, Nanhu East Road, Urumqi
Guiyang Branch	8	312	32,684	No. 69, Yan'an Middle Road, Yunyan District, Guiyang
Lanzhou Branch	11	309	14,955	No. 555, Donggang West Road, Chengguan District, Lanzhou City
Yinchuan Branch	2	85	3,190	No. 219, Jiefang West Street, Xingqing District, Yinchuan City
Xining Branch	2	39	-	No.57-7, Wusi West Road, Chengxi District, Xining City
Hong Kong Branch	1	122	76,648	30/F., Far East Finance Center, No. 16, Harcourt Road, Hong Kong
Seoul Branch	1	27	5,114	
Adjustment on consolidation			(1,841,666)	
Total	1,122	42,250	3,963,519	

Note:

- The employees of the Head Office of the Bank included 644 staff in the Credit Card Centre and 1,774 staff in Remote Banking Centre.
- The number of outlets, employees and the total assets in the above table excluded those of the subsidiaries of the Bank.

## XII Corporate Governance

### I. Corporate Governance Structure



### II. Overview

Aiming at the best practice of corporate governance in the capital market, the Bank has established a sound corporate governance framework and system of rules and procedures essential for the modern corporate system, leading to better corporate governance of the Bank. In 2016, the Bank strictly complied with the *Company Law*, the *Securities Law*, the *Law on Commercial Banks*, the *Code of the Corporate Governance for Listed Companies*, the *Guidance on the Corporate Governance of Commercial Banks*, the *Guidelines for the Due Diligence Performance of the Board of Directors of Commercial Banks*, the *Guidelines for the Board of Supervisors of Commercial Banks*, the *Hong Kong Listing Rules* and other requirements. The Bank's corporate governance had no deviation from regulatory documents regulating the corporate governance of the listed company issued by the China Securities Regulatory Committee (CSRC).

The Board of Directors of the Bank performed the duties as set out in Rule D.3.1 of Appendix 14 of the Hong Kong Listing Rules including reviewing the Bank's corporate governance policies and practices, the training and continuous professional development of the directors and the senior management, the Bank's policies and practices in respect of observance of law and regulatory requirements, the Bank's compliance with the Model Code and the compliance manual applicable to employees, the Bank's compliance with the code provisions of Appendix 14 of the Hong Kong Listing Rules and the disclosure requirement as stated in the chapter headed "Corporate Governance" in this Annual Report.

During the reporting period, the Bank has smoothly completed the re-election and appointment of members of the Sixth Board of Directors and the Sixth Session of the Board of Supervisors according to laws and regulations and the *Articles of Association of the Bank*. The qualification of

the newly-appointed directors has been approved by the China Banking Regulatory Commission. According to the expertise of directors and supervisors, the composition of the committees of the Seventh Session of the Board of Directors and the Board of Supervisors has been adjusted. The member structure and their professional background are in compliance with the requirements of domestic and foreign regulatory authorities.

During the reporting period, in order to be in line with the *Articles of Association of the Bank*, *the Rules of Procedures of the General Meeting of Shareholders* and *the Rules of Procedures of the Board of Directors*, the Bank made amendments to the rules of procedures of the six special committees of the Board of Directors. In order to further enhance the management of authorization, the Bank improved the proposals and management measures of authorization by the Shareholders' General Meeting to the Board of Directors and the Board of Directors to President; and revised the *Management Measures of Connected Transactions* with reference to the regulatory requirements issued by regulatory authorities in recent year. In order to satisfy domestic and foreign regulatory requirements constantly and further regulate and enhance information disclosure management work, the Bank revised and announced the *Rules on Affairs of Information Disclosures*, providing further details in relation to the basic principle, items, procedures, contents of information disclosure, registration and reporting of insider information as well as accountability. Such amendments and announcements further improved the information disclosure mechanism of the Bank, strengthened the regulation on information disclosure and prevented and reduced insider dealing activities to sufficiently protect the legitimate interests of investors. In order to meet the requirements of the central government in relation to party construction, the Bank revised the *Article of Association of the Bank* and specified the statutory status of party committee in corporate governance of state-owned enterprises. (Revision of the *Article of Association* is pending for the approval of CBRC).

During the reporting period, the Bank safeguarded the minority shareholders' rights of being well-informed, rights of participation and decision-making through proper systems, and procedures. At the general meetings, both on-site voting and online voting were adopted, when material matters concerning the interests of medium and small investors were involved, the votes made by medium and small investors were counted and disclosed separately. When the Bank convened the 2015 Annual General Meeting, 2016 First A Shareholders' Meeting and H Shareholders' Meeting, the Bank appointed an independent financial adviser for their professional opinions on the issuance and listing of A share convertible corporate bonds and on whether such transactions were well justified and in the interest of listed companies and shareholders as a whole, thereby effectively safeguarding the interest of small and medium shareholders. The Bank and its substantial shareholders were independent from each other in terms of their business, personnel, asset, organization and financial affairs, fully ensuring the Bank's full autonomy in its operation.

During the reporting period, the Bank published regular reports, 94 A share *ad hoc* announcements (including online non-announcement documents) and 136 H share *ad hoc* announcements (including A share overseas regulatory announcements) and disclosed its 2015 annual report and 2016 interim report in Japan market, thus ensuring the authenticity, accuracy, completeness, fairness and timeliness of information disclosure, and safeguarding the legitimate

rights and interests of shareholders and stakeholders.

The Bank won the Excellent Board of Directors Prize and was granted the “Award of Creating Value of the Board” in the Twelfth Gold Round Table Award for Boards of Chinese Listed Companies sponsored by the *Directors & Boards* magazine.

The Board of Directors of the Bank has reviewed the implementation and execution of its work during the reporting period, solicited feedback from the senior management of the Bank, and concluded that the Board of Directors of the Bank has effectively performed their duties and safeguarded the interests of the Bank and its shareholders.

### III. Shareholders' Meetings

#### (I) Convening of shareholders' meetings

During the reporting period, the Bank held one annual general meeting, one A shareholders' class meeting, one H shareholders' class meeting, and one extraordinary general meeting in conformity with the procedures specified in *the Articles of Association of the Bank*.

On 29 June 2016, the Bank convened the 2015 Annual General Meeting, 2016 First A Shareholders' Class Meeting, and 2016 First H Shareholders' Class Meeting. The announcement on these meetings was published on the websites of the SSE, the HKSE and the Bank on 30 June 2016.

On 15 November 2016, the Bank convened the 2016 First Extraordinary General Meeting. The announcement for these meetings was published on the websites of the SSE, the HKSE and the Bank on 16 November 2016.

#### (II) Implementation of the resolutions of the general meetings of shareholders by the Board of Directors

During the reporting period, the Board of Directors of the Bank earnestly and fully implemented resolutions considered and approved at the general meetings of the Bank.

Upon consideration and approval at the Bank's 2015 Annual General Meeting, the Board of Directors of the Bank earnestly implemented the profit distribution plan for 2015, distributed dividends to shareholders in time, and safeguarded shareholders' interests. The profit distribution plan has been implemented.

Upon consideration and approval of the resolution regarding the public issuance and listing of A share convertible corporate bonds at the Annual General Meeting of 2015, the First A Shareholders' Class Meeting of 2016 and the First H Shareholders' Class Meeting of 2016, the Bank timely reported to CBRC and CSRC on the proposal in respect of the public issuance and listing of A share convertible corporate bonds. On 17 March 2017, the Bank publicly issued the A share convertible bonds of RMB30 billion.

Upon consideration and approval of the resolution regarding the election of the directors of the seventh session of the Board of Directors at Annual General Meeting of 2015 and the First Extraordinary General Meeting of Shareholders of 2016, the Bank timely reported to CBRC and the PBC and obtained its approval on the qualifications of the new directors.

Upon consideration and approval of the resolution regarding the issuance of qualified tier-2 capital bonds at the First Extraordinary General Meeting of Shareholders of 2016, the Bank timely reported to CBRC and the People's Bank of China. On 2 March 2017, the Bank issued qualified tier-2 capital bonds of RMB28.0 billion in China's inter-bank bond market.

### (III) Attendance rate of directors at general meetings

Name	Number of Meetings	Attendance in Person
Mr. Tang Shuangning	2	1
Mr. Gao Yunlong	2	1
Mr. Zhang Jinliang	1	1
Mr. Ma Teng	2	0
Ms. Li Jie	1	1
Mr. Zhang Shude	1	1
Mr. Wu Gang	2	2
Mr. Li Huaqiang	1	1
Mr. Zhao Wei	2	0
Mr. Zhang Xinze	2	0
Mr. Qiao Zhimin	2	2
Mr. Xie Rong	2	1
Ms. Fok Oi Ling Catherine	2	1
Mr. Xu Hongcai	2	1
Mr. Feng Lun	2	0

Note: In accordance with Rule A.6.7 of Appendix 14 of the Hong Kong Listing Rules, Independent Non-Executive Directors should attend general meetings of the Bank. Some independent non-executive directors of the Bank were unable to attend relevant general meetings in 2016 due to other official duties.

## IV. Directors and Board of Directors

### (I) Board Composition

As at the end of the reporting period, the Board of Directors consisted of 15 Directors, including 3 Executive Directors (Mr. Zhang Jinliang, Mr. Ma Teng, and Ms. Li Jie), 6 Non-Executive Directors (Mr. Tang Shuangning, Mr. Gao Yunlong, Mr. Zhang Shude, Mr. Wu Gang, Mr. Li Huaqiang, and Mr. Zhao Wei), and 6 Independent Non-Executive Directors (Mr. Zhang Xinze, Mr. Qiao Zhimin, Mr. Xie Rong, Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai, and Mr. Feng

Lun).

The Bank has paid special attention to the diversity of the members of the Board of Directors. In accordance with *the Policy on Membership Diversity of the Board of Directors of the Bank*, upon examining the Director candidates and submitting its recommendation to the Board of Directors, the Nomination Committee comprehensively evaluated the candidates' gender, age, cultural and educational background, professional experience, skills, knowledge, length of service, etc. The Nomination Committee is also responsible for evaluating the structure, number of members and composition of the Board of Directors, and recommending to the Board on any adjustments that correspond with the strategy of the Bank. Out of the 15 Directors of the Bank as at the end of the reporting period, 2 are female, 12 hold a postgraduate degree or above with 7 holding a doctoral degree. Engaged in the operational and managerial work in the commercial banking sector for an extensive period of time, the Executive Directors are highly experienced. The Non-Executive Directors have held key positions in their respective institutions and possess a wealth of managerial experience. The Independent Non-Executive Directors are experts in finance, accounting, auditing and other aspects who can provide the Bank with professional advice in different areas.

For the details of the biographies of Directors, please refer to "Directors, Supervisors, Senior Management, Staff, Branches and Outlets".

## (II) Duties and Powers of the Board of Directors

As the decision-making body of the Bank, the Board of Directors is responsible for convening the general meeting of shareholders, reporting work to the general meeting of shareholders and implementing resolutions passed at the general meeting of shareholders. The Board of Directors shall also make strategies, operation plans and investment plans and formulate various proposals on financial budget, final accounts, risk capital allocation, profit distribution plan and appoint members of senior management. Please refer to *the Articles of Association of the Bank* for details.

## (III) Board Meetings and Resolutions

During the reporting period, the Board of Directors held 11 meetings, including 8 on-site meetings and 3 meetings via written resolutions. The Board of Directors considered a total of 85 proposals and heard 18 reports, playing an effective role in scientific decision-making.

The Board of Directors of the Bank continuously improved the capital management system to consolidate the capital foundation, successfully completed the issuance of 100 million preference shares (the second tranche of the first issuance) and considered and approved 2016-2020 Report on Capital Planning and its review report and the proposal of public issuance and the listing of A shares convertible bonds, proposal in respect of the issuance of qualified tier-2 capital bonds and non-public issuance of preference shares (second issuance) and other capital replenishment proposals. It fostered internationalization with the approval from CBRC on the preparation of establishing CEB (Europe) S.A. and CEB Luxembourg branch; strengthened strategic management and considered and approved *the Overall Strategy and 2016-2020 Development Plan of the Bank*;

fostered strategic transformation and considered and approved the resolutions regarding the investments in information technology companies, establishment of subsidiaries of direct bank, establishment of a separate legal entity for the credit card business and Ruijin Everbright Village Bank, etc.; effectively implemented internal control and constantly improved the standard of refined management of related-party transactions; enhanced the management of information insider and performed information disclosure in strict compliance with regulatory requirements.

The announcements of resolutions of all Board Meetings of the Bank are published on the websites of the SSE, the HKSE and the Bank.

#### (IV) Attendance Records of Directors at Board Meetings

Name	Number of Meetings	Attendance in Person	Attendance by Proxy	Absence
Mr. Tang Shuangning	11	11	0	0
Mr. Gao Yunlong	11	10	1	0
Mr. Zhang Jinliang	4	4	0	0
Mr. Ma Teng	11	7	4	0
Ms. Li Jie	2	1	1	0
Mr. Zhang Shude	2	2	0	0
Mr. Wu Gang	11	10	1	0
Mr. Li Huaqiang	2	2	0	0
Mr. Zhao Wei	11	9	2	0
Mr. Zhang Xinze	11	8	3	0
Mr. Qiao Zhimin	11	11	0	0
Mr. Xie Rong	11	10	1	0
Ms. Fok Oi Ling Catherine	11	11	0	0
Mr. Xu Hongcai	11	9	2	0
Mr. Feng Lun	11	6	5	0

Note:

1. Executive Director Mr. Zhang Jinliang started to perform his duty as executive director upon the approval of his qualifications by the CBRC in August 2016.
2. Executive Directors Ms. Li Jie and Non-Executive Director Mr. Zhang Shude, Non-Executive Director Mr. Li Huaqiang started to perform his or her duty upon the approval of his or her qualifications by the CBRC in September 2016.

#### (V) Appointment, re-election and removal of directors

In accordance with the *Articles of Association of the Bank*, directors shall be elected and replaced at the general meeting of shareholders, and the term of office for directors (including non-executive directors) is three years starting from the date when the appointment qualifications are approved by the CBRC. Directors can be re-elected and re-appointed when the term of office has expired and the term of office of the re-elected and re-appointed directors commences from the



date when such re-election and re-appointments are approved at the general meeting of shareholders.

The term of office for the independent non-executive directors is the same as that of other directors. The term of office for the independent non-executive directors shall conform to applicable laws and provisions of regulatory authorities.

The *Articles of Association of the Bank* stipulates the procedures for appointing, re-electing and removing directors. The Nomination Committee of the Board of Directors preliminarily reviews the qualification and conditions of each director candidate and submits a proposal to the Board of Directors, which will consider and approve the proposal on the nomination of director candidates and further submit it for election at the general meeting.

#### (VI) Board Statement on the Financial Statements

The Senior Management has provided sufficient explanation and information for the Board of Directors to make well-informed judgments in respect to the submitted financial statements and other data for approval. The directors of the Bank acknowledge that they are responsible to prepare the financial statements of the Bank which truly represent the operating results of the Bank for the year of 2016. To the best knowledge of the directors, there was no material uncertain event or condition that might have a material adverse effect on the continuing operation of the Bank.

### V. Chairman and Chief Executive (President)

The roles and work of the Chairman of the Board and the President are performed by different individuals, and their respective responsibilities are clearly defined and divided, which is in compliance with the provisions of the *Hong Kong Listing Rules*. Mr. Tang Shuangning, the Chairman of the Board of Directors of the Bank is responsible for convening and presiding the meetings of the Board of Directors, ensuring that all directors attending the Board Meeting are properly informed of the issues to be reviewed or reported, managing the operation of the Board of Directors, making sure that all key and relevant issues are discussed by the Board of Directors in a constructive and timely manner. Mr. Zhang Jinliang is the President of the Bank and leads the operation and management of the Bank, the implementation of the Board resolutions and the execution of the Bank's strategies and business plans.

### VI. Duty Performance of Independent Non-Executive Directors

#### (I) Independence of the Independent Non-Executive Directors

The six Independent Non-Executive Directors of the Bank are not involved in any factors influencing their independence mentioned in Rule 3.13 of the *Hong Kong Listing Rules*. The Bank has received the letter of annual confirmation about his or her independence issued from each independent non-executive directors according to Rule 3.13 of the *Hong Kong Listing Rules*. The Bank is of the view that all Independent Non-executive Directors have met the independence

requirements of the *Hong Kong Listing Rules*.

(II) Attendance of general meetings by Independent Non-Executive Directors

Please refer to “III (III)” of this section for details.

(III) Attendance of board meetings by Independent Non-Executive Directors

Please refer to “IV (IV)” of this section for details.

(IV) Independent Non-Executive Directors’ objections to any issues of the Bank

During the reporting period, none of the Independent Non-Executive Directors of the Bank had raised any objections to the proposals of the Board of Directors or other issues.

(V) Duty Performance of Independent Non-Executive Directors

As at the end of the reporting period, the Bank had six Independent Non-Executive Directors, accounting for one-third of the Board members. The Remuneration Committee, the Related Party Transactions Control Committee and the Audit Committee of the Board of Directors were all chaired by independent non-executive directors. During the reporting period, they expressed their independent opinions on all issues involving the interests of minority shareholders, such as profit distribution plans, remuneration of the senior management, major related party transactions in accordance with the *Articles of Association of the Bank*. In all Board committees, each of the independent non-executive directors, based on their expertise, provided professional and constructive opinions and recommendations on issues under discussion. When the Board of Directors is not in session, the independent non-executive directors often read the Bank’s internal documents and information on the Bulletin of the Board and participated in the senior management’s briefings for the Board of Directors, so as to be well informed of internal control audit, strategic transformation, business development, risk management; communicated actively with other directors, supervisors, senior management members and external auditors, so as to obtain necessary information to perform their duties. The independent non-executive directors maintained close contacts with the Bank via emails and phone calls. The independent non-executive directors’ recommendations were highly valued and some were adopted, playing a positive role in defining strategic direction of the Bank, improving the Bank’s management and operation and guiding the business development.

## VII. Duty Performance of Board Committees

The Board of Directors has set up the Strategy Committee, the Audit Committee, the Risk Management Committee, the Nomination Committee, the Remuneration Committee, and the Related Party Transactions Control Committee. During the reporting period, the Board Committees held 39 meetings including 7 meetings of the Strategy Committee, 8 meetings of the Audit Committee, 7 meetings of the Risk Management Committee, 7 meetings of the Nomination

Committee, 4 meetings of the Remuneration Committee, and 6 meetings of the Related Party Transactions Control Committee. During these meetings, 69 proposals were reviewed and 28 reports were considered. The Board Committees, based on the division of duties and powers, carefully considered material issues in the Bank's operation and provided professional support for the Board of Directors to make scientific decisions.

#### (I) Strategy Committee

At the end of the reporting period, the Strategy Committee consisted of 9 members including Non-Executive Directors Mr. Gao Yunlong (Chairman), Mr. Zhang Shude, Mr. Wu Gang, and Mr. Li Huaqiang, Executive Directors Mr. Zhang Jinliang and Mr. Ma Teng, and Independent Non-Executive Directors Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai, and Mr. Feng Lun.

Primary duties and responsibilities of the Strategy Committee include reviewing and discussing plans on capital management and replenishment, annual operation plan and major investment programs, conducting researches on the Bank's business objectives and medium and long-term development strategies and advising the Board accordingly.

During the reporting period, the Strategy Committee reviewed and passed the proposal on the Company's business plans and financial budget plans for 2016, the 2016 Annual Fixed Assets Investment Budget, the Strategic Committee Working Rules (revised in 2016), the Public Offering of A-share Convertible Corporate Bonds and Listing Plan, "Overall Strategy" and the "2016-2020 Development Plan of the Bank", the issuance of qualified tier-2 capital bonds, the capital increase of CEB International Investment Corporation Limited, public offering of preferred shares, etc., heard and discussed the 2015 Strategy Implementation Report, the Report on Protection of Consumer Rights in 2015.

During the reporting period, the Strategy Committee convened 7 meetings (including 6 on-site meetings and 1 meeting via written resolutions), reviewed 18 proposals and heard 2 reports. The attendance of the committee members is as follows:

Name	Number of Meetings	Attendance in person	Attendance by proxy	Absence
Mr. Gao Yunlong	7	6	1	0
Mr. Zhang Jinliang	3	3	0	0
Mr. Ma Teng	7	4	3	0
Mr. Zhang Shude	2	2	0	0
Mr. Wu Gang	7	6	1	0
Mr. Li Huaqiang	2	1	1	0
Ms. Fok Oi Ling Catherine	7	7	0	0
Mr. Xu Hongcai	7	6	1	0
Mr. Feng Lun	7	3	4	0

Note:

1. On 29 June 2016, the Bank held the 1st meeting of the Seventh Session of the Board of Directors, when Resolution relating to the Election of the Members of the Remuneration, Strategy, Risk Management, Audit, Related Party Transaction Control Committees of the Seventh Session of the Board was considered and passed. The Board elected Mr. Gao Yunlong, Mr. Zhang Jinliang, Mr. Ma Teng, Mr. Zhang Shude, Mr. Wu Gang, Mr. Li Huaqiang, Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai, and Mr. Feng Lun as members of the Strategy Committee of the Board of Directors.
2. The appointment of Executive Director Mr. Zhang Jinliang became effective upon the approval of his appointment qualifications as an Executive Director by the CBRC in August 2016.
3. The appointment of Non-Executive Directors Mr. Zhang Shude and Mr. Li Huaqiang became effective upon the approval of their appointment qualifications as Non-Executive Directors by the CBRC in September 2016.

## (II) Audit Committee

At the end of the reporting period, the Audit Committee consists of 6 members, of which the majority and the chairman were Independent Non-Executive Directors. Its members include Independent Non-Executive Directors Mr. Xie Rong (Chairman), Mr. Zhang Xinze, Mr. Qiao Zhimin, Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai and Non-Executive Director Mr. Li Huaqiang.

Primary duties of the Audit Committee include examining the Bank's internal control system and monitoring its implementation; inspecting and monitoring the Bank's risk management and compliance conditions; examining and monitoring the Bank's internal audit system and guiding the work of the internal audit departments; recommending the engagement of external auditors; guiding and monitoring the work of external auditors; and supervising the Bank's annual audit.

During the reporting period, the Audit Committee amended the rules of work of the Committee and considered the annual financial audit reports for A shares and H shares, the interim review report, the quarterly reports on the implementation of agreed procedures, the internal control self-appraisal report and the audit report on internal control. The committee also heard the internal auditing work summary and work plan, the *Recommendations for Management of 2015* and the management's report on related rectifications; observed and discussed the performance of the annual, interim and quarterly operation; inspected the Bank's off-site audit system and risk management and so on. The Committee also invited Ernst & Young LLP to make presentations on 2015 Annual Report of Listed Banks, Capital Management under Capital Constraints, Information Security Risk from Board of Directors' Perspective, and Practical Application of the New Policy of Debt-to-Equity Swap under Non-Performing Assets Restructuring Plan.

In accordance with the requirements of the Annual Report Procedures of the Audit Committee of the Board of Directors, the Audit Committee of the Bank attached great importance to the first year's auditing of the Bank by Ernst & Young LLP. The committee heard the auditor's report on the hand-over of the auditing work, reviewed the 2016 annual auditing work plan and observed the disclosure of key issues as required by the new auditing standards and commented on the major auditing issues. In March 2017, the Audit Committee of the Board of Directors held its sixth meeting to consider the audited 2016 financial statements by the auditors. The committee was of the view that the audited financial statements truly, accurately and completely reflect the Bank's overall situation and reached a resolution to submit the financial statements to the Board for consideration.

During the reporting period, the Audit Committee convened 8 meetings (including 6 on-site meetings and, 2 meetings via written resolutions), reviewed 11 proposals and considered 17 reports. The attendance of the committee members is as follows:

Name	Number of Meetings	Attendance in person	Attendance by proxy	Absence
Mr. Xie Rong	8	8	0	0
Mr. Li Huaqiang	1	0	1	0
Mr. Zhang Xinze	8	4	4	0
Mr. Qiao Zhimin	8	8	0	0
Ms. Fok Oi Ling Catherine	5	5	0	0
Mr. Xu Hongcai	8	7	1	0

Note:

1. On 29 June 2016, the Bank held the 1st meeting of the Seventh Session of the Board of Directors, at which the “Resolution relating to the Election of the Members of the Remuneration, Strategy, Risk Management, Audit, Related Party Transaction Control Committees of the Seventh Session of the Board” was considered and passed. Mr. Liu Jun, Mr. Li Huaqiang, Mr. Xie Rong, Mr. Qiao Zhimin, Ms. Fok Oi Ling Catherine and Mr. Xu Hongcai were elected as the members of the Audit Committee of the Board of Directors by the Board.
2. Mr. Zhang Xinze continued to perform his duty of the member of the Audit Committee of the Board of Directors prior to the election of his replacement as Independent Non-Executive Directors at the general meeting of shareholders of the Bank and the approval of his/her appointment qualification by the CBRC.
3. Mr. Li Huaqiang, the Non-Executive Director, started performing his duty after his appointment qualification was approved by the CBRC since September 2016.

### (III) Risk Management Committee

As at the end of the reporting period, the Risk Management Committee consisted of 6 members, including Non-Executive Directors Mr. Zhang Shude (Chairman), Mr. Zhao Wei, Executive Directors Mr. Zhang Jinliang, Ms. Li Jie, and Independent Non-Executive Directors Mr. Qiao Zhimin and Mr. Feng Lun.

Primary duties of the Risk Management Committee of the Board of Directors include: determining the risk management strategy of the Bank and the overall risk tolerance; supervising the duty performance of the Senior Management in controlling risks of credit, market, liquidity, operation, IT and market reputation, etc.; evaluating the basic risk management system and management mechanism of the Bank; recommending the Bank’s management objective of capital adequacy ratio, reviewing and supervising the implementation of the Bank’s capital plan and the recommendations on the disclosure of the capital adequacy ratio.

During the reporting period, the Risk Management Committee amended the terms of reference of the committee, analyzed and evaluated the regular risk management report submitted by the Senior Management of managing credit risks, market risks, operational risks, compliance risks, and liquidity risks and the related policy re-examination, clarified the proposal of the Bank’s credit

policy and the related policy re-examination, set the risk appetite and the related re-examination, and adjusted the risk appetite indicators, considered and re-examined the capital plan (2016-2020), developed the plan for improving and adjusting the risk management systems of the asset management business and the financial market business, revised strategies and policies on business continuity management, and continuously paid attention to the approvals of large-amount credit allocation by the Head Office's Commission for Credit Examination and Approval.

During the reporting period, the Risk Management Committee of the Board of Directors convened 7 meetings (including 5 on-site meetings and 2 meetings via written resolutions), reviewed 13 proposals and heard 7 reports.

Name	Number of Meetings	Attendance in person	Attendance by proxy	Absence
Mr. Zhang Shude	2	2	0	0
Mr. Zhang Jinliang	3	3	0	0
Ms. Li Jie	2	1	1	0
Mr. Zhao Wei	7	3	4	0
Mr. Qiao Zhimin	7	7	0	0
Mr. Feng Lun	7	3	4	0

Note:

- On 29 June 2016, the Bank held the 1st meeting of the Seventh Session of the Board of Directors, at which the "Resolution relating to the Election of the Members of the Remuneration, Strategy, Risk Management, Audit, Related Party Transactions Control Committees of the Seventh Session of the Board" was considered and passed. Mr. Zhang Shude, Mr. Zhang Jinliang, Ms. Li Jie, Mr. Zhao Wei, Mr. Qiao Zhimin and Mr. Feng Lun were elected as the members of the Risk Management Committee of the Board of Directors by the Board.
- Executive Director Mr. Zhang Jinliang started to perform his duty of Executive Director after his appointment qualification was approved by the CBRC in August 2016.
- Executive Director Ms. Li Jie and Non-Executive Director Mr. Zhang Shude started to perform their duties after their appointment qualifications were approved by the CBRC in September 2016.

#### (IV) Nomination Committee

As at the end of the reporting period, the Nomination Committee consisted of 5 members, including Non-Executive Director Mr. Tang Shuangning (Chairman) and Independent Non-Executive Directors Mr. Qiao Zhimin, Mr. Xie Rong, Ms. Fok Oi Ling Catherine, and Mr. Xu Hongcai.

Primary duties and responsibilities of the Nomination Committee include: building the talent pool of qualified candidates for directors and senior management; drafting the procedures and the selection criteria for directors and senior management members, preliminarily reviewing the position qualifications and conditions of candidates, and advising the Board accordingly; making the suggestions on the composition of other board committees for the Board's approval based on the nomination of the Chairman of the Board of Directors and taking into account the expertise and willingness of the directors as well as the actual needs of the Board of Directors; making assessment

of the Board structure, the number of board members and the board composition each year and offering recommendations on the adjustment of the Board of Directors according to the Bank's strategy; evaluating the training and professional development of the Directors and the senior management.

During the reporting period, the Nomination Committee amended the terms of reference of the committee, reviewed the qualification of the director candidates of the Seventh Session of the Board of Directors and advised the Board accordingly, proposed composition of some special committees of the Seventh Session of the Board of Directors, reviewed the adjustments of some senior member and Secretary of the Board of Directors.

During the reporting period, the Nomination Committee convened 7 meetings (including 5 on-site meetings and 2 meetings via written resolutions) and considered proposals. The attendance of committee members is as follows:

Name	Number of Meetings	Attendance in person	Attendance by proxy	Absence
Mr. Tang Shuangning	4	4	0	0
Mr. Qiao Zhimin	7	7	0	0
Mr. Xie Rong	7	7	0	0
Ms. Fok Oi Ling Catherine	7	7	0	0
Mr. Xu Hongcai	7	7	0	0

Note: On 29 June 2016, the Bank held the 1st meeting of the Seventh Session of the Board of Directors, at which the "Resolution relating to the Election of the Members of the Remuneration, Strategy, Risk Management, Audit, Related Party Transactions Control Committees of the Seventh Session of the Board" was considered and passed. Mr. Tang Shuangning, Mr. Qiao Zhimin, Mr. Xie Rong, Ms. Fok Oi Ling Catherine and Mr. Xu Hongcai were elected as the members of the Nomination Committee of the Board of Directors by the Board.

#### (V) Remuneration Committee

As at the end of the reporting period, the Remuneration Committee consisted of 7 members, of which the majority and the Chairman were Independent Non-Executive Directors. The members include Independent Non-Executive Directors Mr. Qiao Zhimin (Chairman), Mr. Zhang Xinze, Mr. Xie Rong, Mr. Feng Lun and Non-Executive Directors Mr. Tang Shuangning, Mr. Zhang Shude, and Mr. Wu Gang.

Primary duties and responsibilities of the Remuneration Committee include: drafting the remuneration management system for the directors and the senior management, making recommendations to the Board and overseeing the implementation of the system; reviewing the duty performance of directors and the senior management members and making recommendations to the Board on the examination and evaluation of them; making proposal of the remuneration plan of directors and the senior management members and submit the same to the Board for approval; reviewing the basic systems involving salaries and benefits of the Bank's employees, advising the

Board accordingly and supervising the implementation of these systems, etc.

During the reporting period, the Remuneration Committee amended the terms of reference of the committee, considered and approved the Board of Directors' Report on the Evaluation of General Performance of Duties by Directors for 2015 and the 2015 Remuneration Standard for Directors, decided the 2015 Remuneration Standard for Senior Management members, established the mechanism of deferred payment of remuneration, and studied and proposed the assessment and evaluation result of senior management members in 2015.

During the reporting period, the Remuneration Committee convened 4 meetings in total (including 2 on-site meetings and 2 meetings via written resolutions), considered 6 proposals, and hear 1 report. The attendance of Committee members is as follows:

Name	Number of Meetings	Attendance in person	Attendance by proxy	Absence
Mr. Qiao Zhimin	4	4	0	0
Mr. Tang Shuangning	4	4	0	0
Mr. Zhang Shude	0	0	0	0
Mr. Wu Gang	4	4	0	0
Mr. Zhang Xinze	4	3	1	0
Mr. Xie Rong	4	4	0	0
Mr. Feng Lun	4	2	2	0

Note:

1. On 29 June 2016, the Bank held the 1st meeting of the Seventh Session of the Board of Directors, at which the "Resolution relating to the Election of the Members of the Remuneration, Strategy, Risk Management, Audit, Related Party Transactions Control Committees of the Seventh Session of the Board" was considered and passed. Mr. Tang Shuangning, Mr. Zhang Shude, Mr. Wu Gang, Mr. Qiao Zhimin, Mr. Xie Rong and Mr. Feng Lun were elected as the members of the Remuneration Committee of the Board of Directors by the Board.
2. Mr. Zhang Xinze continued to perform his duty as the member of the Remuneration Committee of the Board of Directors prior to the election of his replacement as Independent Non-Executive Directors at the general meeting of shareholders of the Bank and the approval of his or her appointment qualification as independent non-executive directors was approved by the CBRC.
3. Non-Executive Director Mr. Zhang Shude, started to perform his duty after his appointment qualification as non-executive director was approved by the CBRC in September 2016.

## (VI) Related Party Transactions Control Committee

As at the end of the reporting period, the Related Party Transactions Control Committee is composed of 7 members, the majority of which are Independent Non-executive Directors. The committee is chaired by an Independent Non-executive Director. Its members include Independent Non-executive Directors Ms. Fok Oi Ling Catherine (Chairman), Mr. Zhang Xinze, Mr. Qiao Zhimin, Mr. Xie Rong, Mr. Xu Hongcai, Mr. Feng Lun, and Non-Executive Director Mr. Zhao Wei.

Primary duties and responsibilities of the Related Party Transactions Control Committee include: filing the common connected transactions; reviewing the significant connected transactions



and submitting the same to the Board of Directors for consideration; providing detailed reports to the Board of Directors on the overall status, risk level and structural distribution of connected transactions conducted in the year; developing the connected transactions management measures and submitting the same to the Board of Directors for approval before implementation; identifying and reporting the related parties of the Bank to the Board of Directors and the Board of Supervisors, and timely announcing the identities of such related parties to the relevant staff of the Bank.

During the reporting period, the Related Party Transactions Control Committee amended the Procedural Rules of the Committee and the Administrative Measures for the Management of Related Party Transactions reviewed and considered the proposals on the 2015 report on related party transactions, 5 significant related party transactions and the investment in an IT company, and heard the reports on the divisions of responsibilities of management and progress in the adjustment of the management system of related party transactions.

During the reporting period, the Related Party Transactions Control Committee held 6 meetings in total (including 4 on-site meetings and 2 meetings via written resolutions), reviewed 9 proposals and considered 1 work report. The attendance rate of Committee members is as follows:

Name	Number of Meetings	Attendance in person	Attendance by proxy	Absence
Ms. Fok Oi Ling Catherine	6	6	0	0
Mr. Zhang Xinze	6	3	3	0
Mr. Qiao Zhimin	6	6	0	0
Mr. Xie Rong	6	6	0	0
Mr. Xu Hongcai	4	3	1	0
Mr. Feng Lun	4	2	2	0
Mr. Zhao Wei	6	4	2	0

Note:

- On 29 June 2016, the Bank held the 1st meeting of the Seventh Session of the Board of Directors, at which the “*Resolution relating to the Election of the Members of the Remuneration, Strategy, Risk Management, Audit, Related Party Transaction Control Committees of the Seventh Session of the Board*” was considered and passed. Mr. Zhao Wei, Mr. Qiao Zhimin, Mr. Xie Rong, Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai and Mr. Feng Lun were elected as the members of the Related Party Transactions Control Committee of the Board of Directors by the Board.
- Mr. Zhang Xinze continued to perform his duty of the member of the Related Party Transactions Control Committee of the Board of Directors prior to the election of the Independent Non-Executive Directors taking over his place at the general meeting of shareholders of the Bank and the approval of the appointment qualification of Independent Non-Executive Director was approved by the CBRC.

## VIII. Supervisors and the Board of Supervisors

The Board of Supervisors fully executed the regulatory requirements and collaborated with the Board of Directors and the senior management, while performed various supervisory duties in accordance with the law. It prudently provided the supervision and evaluation opinions on the Board of Directors, the senior management and their members, and conducted evaluation of the

duty performance of the Supervisors, in order to facilitate their effective duty performance; focused on the Bank's major financial decision-making and related implementation and reviewed the financial statements and the profit distribution plans so as to achieve targeted financial supervision; enhanced the supervision on the risk management, internal control, and supervision of strategies management and remuneration management and promoted the compliant and steady operation of the Bank by attending to reports and conducting interviews with various departments. Based on its investigations and studies on the Bank's business development, implementation of strategies, and risk management, the Board of Supervisors provided relevant recommendations for the decision-making of the board of director and the senior management, thus playing an active role in improving the Bank's corporate governance and healthy and sustainable development.

#### (I) Composition of the Board of Supervisors

At the end of the reporting period, the Board of Supervisors consists of 10 members, including 3 shareholder representative supervisors, 3 employee supervisors and 4 external supervisors. The members of the Board of Supervisors, who all have rich experience in finance, accounting and business management, have demonstrated sufficient expertise and independence, thus ensuring the effective functioning of the Board of Supervisors.

The Board of Supervisors has set up the Nomination Committee and the Supervision Committee.

#### (II) Performance of its Supervisory Duties by Board of Supervisors

The primary ways for the Board of Supervisors to perform its supervising duties include: holding regular meetings, attending the shareholders' general meetings, the meetings of the Board of Directors and board committees, attending the meetings of the senior management, reviewing business management reports, attending to the reports of all business lines and branches, conducting interviews with persons in charge of various branches and departments, conducting collective or individual inspections on the Bank's branches and outlets, and providing its supervision recommendations and meetings minutes to the Board of Directors and the senior management. In this way, the Board of Supervisors supervised the Board of Directors and senior management in terms of their duty performance, financial management, risk management, internal control management, strategic management and remuneration management.

#### (III) Meetings of the Board of Supervisors

During the reporting period, the Board of Supervisors, in accordance with the relevant provisions in the *Articles of Association of the Bank* and the rules of procedures, convened 7 meetings of the Board of Supervisors, including 5 on-site meetings and 2 meetings via written resolutions, and reviewed 19 proposals and considered 2 reports, including regular reports of the Bank, the reports on the evaluation of the duty performance of the Board of Directors and the senior management, the reports on internal control, the profit distribution plan and remuneration of the supervisors, and formed clear opinions on relevant proposals.

During the reporting period, the Board of Supervisors attended all the shareholders' general meetings and all the meetings of the Board of Directors as non-voting delegates and supervised the compliance and legality of the aforementioned meetings, the voting procedures and the attendance, speeches and voting of the members of the Board of Directors.

#### (IV) Attendance Record of the Board of Supervisors

Name	Number of Meetings	Attendance in person	Attendance by proxy	Absence
Mr. Li Xin	7	6	1	0
Mr. Mu Huijun	7	7	0	0
Mr. Yin Lianchen	7	5	2	0
Mr. Wu Junhao	7	6	1	0
Mr. Yu Erniu	7	7	0	0
Mr. Wu Gaolian	4	4	0	0
Mr. Deng Ruilin	4	2	2	0
Mr. Wang Zhe	0	0	0	0
Mr. Ye Donghai	7	7	0	0
Ms. Liu Yan	4	4	0	0

Note:

1. Mr. Wu Gaolian and Mr. Deng Ruilin started to perform their duties after being elected as the External Supervisors of the Seventh Session of the Board of Supervisors at the 2015 general meeting of shareholders on 29 June 2016;
2. Ms. Liu Yan started to perform her duty after being elected as the Employee Supervisor of the Seventh Session of the Board of Supervisors at the meeting of representatives of employees of 2016 on 27 June 2016;
3. Mr. Wang Zhe started to perform his duty after being elected as the External Supervisor of the Seventh Session of the Board of Supervisors at the First Extraordinary General Meeting of Shareholders of 2016 on 15 November 2016.

#### (V) Special Committees of the Board of Supervisors

The two committees under the Board of Supervisors are the Nomination Committee and the Supervision Committee. The Nomination Committee consists of 6 members while the Supervision Committee consists of 6 members. The chairmen of both committees are external supervisors.

##### 1. Nomination Committee

The members of the Nomination Committee include Mr. Yu Erniu (Chairman), Mr. Li Xin, Mr. Yin Lianchen, Mr. Wu Gaolian, Mr. Deng Ruilin and Ms. Liu Yan.

Primary duties of the Nomination Committee include making suggestions to the Board of Supervisors regarding the size and composition of the Board of Supervisors; drafting the procedures and criteria for selecting supervisors and advising the Board of Supervisors accordingly; conducting preliminary review of the qualifications and conditions of the supervisor candidates and advising

the Board of Supervisors accordingly; supervising the procedures of the selection and appointment of directors; drafting the plan of supervising the duty performance of directors, supervisors and senior management, making a comprehensive evaluation in this regard and reporting to the Board of Supervisors; supervising the rationality of the remuneration management system and policies of the bank and the remuneration plan of the senior management.

During the reporting period, the Nomination Committee considered and approved the proposals on the Board of Supervisors' appraisal report on the overall duty performance of the Board of Directors, senior management, Directors and Supervisors, 2015 Remuneration Standards for Supervisors, the determination of the Supervisor Candidates of the Seventh Session of the Board of Directors and the amendment of *Procedural Rules of the Committees*.

During the reporting period, the Nomination Committee of the Board of Supervisors convened 4 meetings (including 3 on-site meetings and 1 meeting via written resolution) and reviewed 10 proposals. The attendance of committee members is as follows:

Name	Number of Meetings	Attendance in person	Attendance by proxy	Absence
Mr. Yu Erniu	4	4	0	0
Mr. Li Xin	4	3	1	0
Mr. Yin Lianchen	4	2	2	0
Mr. Wu Gaolian	1	1	0	0
Mr. Deng Ruilin	1	0	1	0
Ms. Liu Yan	1	1	0	0

Note:

- On 29 June 2016, the Bank held the 1st meeting of the Seven Session of the Board of Supervisors, at which the "Proposal on the Election of Members of the Special Committee of the Seventh Session of the Board of Supervisors of China Everbright Bank Company Limited" was considered and passed, and Mr. Yu Erniu, Mr. Li Xin, Mr. Yin Lianchen, Mr. Wu Gaolian, Mr. Deng Ruilin and Ms. Liu Yan were elected as the members of the Nomination Committee of the Board of Supervisors.
- Mr. Wu Gaolian and Mr. Deng Ruilin started performing their duties after being elected as the External Supervisor of the Seventh Session of the Board of Supervisors at the 2015 general meeting of shareholders on 29 June 2016;
- Ms. Liu Yan started performing her duty after being elected as the Employee Supervisor of the Seventh Session of the Board of Supervisors at the 2016 meeting of representatives of employees on 27 June 2016.

## 2. Supervision Committee

The members of the Supervision Committee include Mr. Wu Gaolian (Chairman), Mr. Mu Huijun, Mr. Wu Junhao, Mr. Yu Erniu, Mr. Deng Ruilin and Mr. Ye Donghai.

Primary duties of the Nomination Committee include developing the plan for supervising the Bank's operation and decision-making, risk management and internal control, and being responsible for the implementation of this plan after it is approved by the Board of Supervisors; developing the plan for supervising the financial activities of the Bank, and being responsible for the implementation of this plan after it is approved by the Board of Supervisors; supervising the Board

of Directors in setting up the concept of prudent business operation and the principles of value for the Bank and in formulating the development strategy that works best for the Bank; keeping itself informed of the preparation of the regular reports by the Board of Directors and relevant material adjustments and reporting the same to the Board of Supervisors; maintaining good communication with relevant special committees of the Board of Directors, relevant departments of the Bank and external intermediaries, and providing supervision recommendations on the Bank's appointment of its external auditors when the Committee deems it necessary.

During the reporting period, the Supervision Committee of the Board of Supervisors considered and approved the proposals on the 2015 annual report of the Bank, Evaluation Report of Internal Control, the Third Quarter Report 2016 and the amendment of *the Procedural Rules of the Supervision Committee of the Board of Supervisors*.

During the reporting period, the Supervision Committee of the Board of Supervisors convened 3 meetings, all of which were on-site meetings, and considered 4 proposals. The attendance of committee members is as follows:

Name	Number of Meetings	Attendance in person	Attendance by proxy	Absence
Mr. Wu Gaolian	1	1	0	0
Mr. Mu Huijun	3	3	0	0
Mr. Wu Junhao	3	2	1	0
Mr. Yu Erniu	3	3	0	0
Mr. Deng Ruilin	1	0	1	0
Mr. Ye Donghai	3	3	0	0

Note:

- On 29 June 2016, the Bank held the 1st meeting of the Seventh Session of the Board of Supervisors, at which the "Proposal on the Election of Members of the Special Committee of the Seventh Session of the Board of Supervisors of China Everbright Bank Company Limited" was considered and passed, and Mr. Wu Gaolian, Mr. Mu Huijun, Mr. Wu Junhao, Mr. Yu Erniu, Mr. Deng Ruilin and Mr. Ye Donghai were elected as the members of the Nomination Committee of the Board of Supervisors.
- Mr. Wu Gaolian and Mr. Deng Ruilin started to perform their duties after being elected as the External Supervisors of the Seventh Session of the Board of Supervisors at the 2015 general meeting of shareholders on 29 June 2016.

## (VI) Supervision by the Board of Supervisors

The Board of Supervisors had no objection to the supervision matters during the reporting period.

## IX. Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the standards set out in the *Model Code* in the Appendix 10 to the Hong Kong Listing Rules as the code of conduct to govern the securities transactions by directors and supervisors of the Bank. Having been enquired by the Company, all directors and supervisors

confirmed that they had always complied with the *Model Code* for the year ended 31 December 2016. The Bank has also formulated guidelines regarding the dealing of the Bank's securities by relevant employees and the guidelines are no less lenient than the *Model Code*. It has not come to the attention of the Bank that any employee was in violation of the guidelines during the reporting period.

## **X. Senior Management**

The Senior Management of the Bank consisted of 9 members, who are responsible for the operation and management of the Bank: implementing the resolutions of the Board of Directors, the strategic plans, the business plan and investment plans approved by the Board of Directors, developing the plan, developing plans of setting up internal managerial bodies and the basic management systems and regulations, and formulating specific administrative measures.

During the reporting period, the Senior Management, in accordance with the development strategy of the Bank, actively and effectively carried out the Bank's operation and management, earnestly implemented the business plan and the financial budget determined by the Board of Directors, better achieved the development targets set at the beginning of year and ensured the steady growth of business and continuous increase of profits.

## **XI. Evaluation and Implementation of Assessment and Incentive of Senior Management**

In accordance with the relevant provisions of the *Provisional Measures on Performance Assessment of Senior Management*, the Remuneration Committee of the Board of Directors formulated the implementation plan for the performance assessment of senior management. During the reporting period, by taking into consideration the overall operation of the Bank and the duty performance of the senior management, the Remuneration Committee of the Board of Directors formulated the proposal of the 2015 performance evaluation grade of each senior management member and the remuneration plan, which were considered and approved by the Board of Directors before the remuneration was granted.

## **XII. Training of Directors and Supervisors**

During the reporting period, some directors participated in 2016 qualification training course for independent non-executive directors and the follow-up training organized by SSE and the special training course for directors of Beijing listed companies held by the Beijing Association of Listed Companies. The Board of Supervisors sent part of its members to participate in some training courses on new supervisors by the Beijing Securities Regulatory Bureau.

The participation by the Bank's directors and supervisors in the training programs on corporate governance, policies, laws and regulations, and business operation and management, complied with Provision A.6.5 of Appendix 14 of *the Hong Kong Listing Rules*.

### **XIII. Auditor's Remuneration**

Please refer to "Significant Events" of this Annual Report for details.

### **XIV. Implementation of Information Disclosure**

During the reporting period, the Bank as a company listed in both Shanghai and Hong Kong, fully complied with relevant requirements for information disclosure, set up a sound information disclosure system and rules, and ensured that the information disclosed was true, accurate and complete. Regarding the disclosure of regular reports, the Bank complied with the regulatory requirements of both Shanghai and Hong Kong and properly completed the preparation the disclosure of the 2015 annual report, the 2016 interim reports and quarterly reports. Regarding the disclosure of temporary reports, the Bank complied with different disclosure requirements for material matters by domestic and overseas regulatory authorities, the Bank carefully formulated disclosure procedures and plans, and made timely announcement on refinancing projects such as convertible bonds, etc., auditing by the National Audit Office, the plan of share increase by major shareholders, and the suspension and resumption of trading of shares. During the year, the Bank published 94 A share *ad hoc* announcements (including online non-announcement documents) and 136 H share *ad hoc* announcements (including A share overseas regulatory announcements). Pursuant to the regulatory requirements on the issuance of POWL in the Japanese capital market, the Bank took the initiative to strengthen the consistency of information disclosed in the H-shares market and satisfy the information disclosure requirements of the Japanese market.

### **XV. Investor Relationship**

During the reporting period, the Bank strictly abided by provisions of domestic and overseas laws and regulations and the requirements of regulatory authorities, actively managed investor relationships through various activities so as to enhance its communication with investors. The Bank held the 2015 financial results (A+H shares) announcement and press conference in Hong Kong. Over 120 institutional investors, bank analysts and media correspondents from home and abroad participated this communication events. 45 visit and on-site investigations were arranged for 266 domestic and overseas investors and analysts. The management members and staff of the Bank participated in the strategy seminars by investment institutions, and held over 10 on-site group meetings and the Bank interacted with investors via interactive online platforms such as "SSE e-interaction". The contents of the Bank's website in both Chinese and English versions have been updated in a timely manner to inform investors about the Company.

### **XVI. Company Secretary and Assistant to Company Secretary under the Hong Kong Listing Rules**

As at the date of this report, Mr. Lu Hong (Board Secretary of the Bank) serves as the Company Secretary under the Hong Kong Listing Rules and Ms. Lee Mei Yi (a director of the Corporate Services Department of Tricor Services Limited) is appointed as the Assistant to Company Secretary. Ms. Lee Mei Yi's main point of contact person within the Bank is Mr. Lu Hong.

During the reporting period, Mr. Cai Yunge (who resigned as the Company Secretary on 26 December 2016) and Ms. Lee Mei Yi had participated in relevant professional training for no less than 15 hours in compliance with Rule 3.29 of the *Hong Kong Listing Rules*. Mr. Lu Hong, the newly appointed Company Secretary on 26 December 2016, will participate in relevant professional training in the forthcoming year in order to comply with Rule 3.29 of the *Hong Kong Listing Rules*.

## **XVII. Shareholders' Rights**

(I) Shareholders who individually or jointly hold more than ten percent of the voting shares of the Bank shall have the right to request the Board of Directors to convene an extraordinary general meeting. Such request shall be made in writing to the Board of Directors.

(II) Shareholders who individually or jointly hold more than three percent of voting shares of the Bank may provide an interim proposal and submit it in writing to the Board of Directors ten days before the shareholders' general meeting is convened. The Board of Directors shall issue a supplementary notice for the shareholders' general meeting within two days upon receipt of the proposal and submit such proposal to the shareholders' general meeting for approval.

(III) An extraordinary Board meeting shall be convened and presided over by the Chairman within ten days it is proposed by the shareholders who individually or jointly hold more than ten percent of the voting shares of the Bank.

(IV) Unless there are specified provisions regarding the rights of the holders of preference shares in laws, regulations, rules, regulatory documents and the *Articles of Association of the Bank*, all the shareholders of the Bank shall have the following rights:

1. Collecting dividends and other forms of benefits distributed on the basis of the number of shares held by them;
2. Attending or entrusting proxy to attend meetings of shareholders and exercise the voting rights;
3. Supervising business operation of the Bank and putting forward recommendations or inquiries accordingly;
4. Transferring shares in accordance with laws, regulations, rules, regulatory documents, relevant regulations of the securities regulatory authority of the jurisdiction where shares of the Bank are listed and the *Articles of Association* of the Bank;
5. Obtaining relevant information according to the *Articles of Association of the Bank*, including the Bank's financial and accounting statements; status of share capital of the Bank; minutes of the shareholders' general meetings, resolutions of meetings of Board of Directors and resolutions of meetings of the Board of Supervisors, etc.;



6. Participating in the distribution of the Bank's remaining assets in proportion to the number of shares held by the shareholders when the Bank is terminated or liquidated.

(V) Holders of preference shares of the Bank shall be entitled to the following special rights:

1. Rights to dividends in priority to holders of ordinary shares;

2. Rights to distribution of residual assets of the Bank upon liquidation in priority to holders of ordinary shares;

3. Rights to attend and vote at shareholders' general meetings upon occurrence of prescribed events;

4. Upon occurrence of prescribed events, to have its voting rights restored.

Please refer to the *Articles of Association of the Bank* for more details about shareholders' rights.

As to the contact details for shareholders to communicate with and enquire of the Board, please refer to "Company Profile" of this report.

## **XVIII. Statement of Compliance with the Banking (Disclosure) Rules**

The Bank has prepared the 2016 H share annual financial statements in accordance with the Banking (Disclosure) Rules by the Hong Kong Monetary Authority.

## **XIX. Compliance with the Corporate Governance Code of the Hong Kong Listing Rules**

Since its listing on the HKSE, the Bank has applied the principles as stipulated in Appendix 14 to the Hong Kong Listing Rules (the Corporate Governance Code). Except for the relevant disclosures made in this Chapter, the Company has fully complied with all the Code Provisions during the reporting period.

## **XX. Self-assessment Report on Internal Control by the Bank**

Based on the outcome of the review of material defects in the internal control related to financial reporting of the Bank, the Bank, as at the reference date for the self-assessment report on internal control (i.e. 31 December 2016), had not discovered any material defects in the internal control system related to financial statements reporting, and had maintained an effective internal control over financial statements reporting in accordance with the Standards of Enterprise's Internal Control in all material aspects.

Based on the outcome of the review of internal control relating to the areas other than financial

statements reporting of the Bank, the Bank, as at the reference date for the self-assessment report on internal control (i.e. 31 December 2016), had not discovered any material defects in internal control relating to the areas other than financial statements reporting.

From the reference date of self-assessment report on internal control to the date of release of the self-assessment report on internal control, there was no factor which may affect the effectiveness of evaluation of the internal control system.

The full text of the *2016 Self-assessment Report on Internal control* of the Bank has been published on the websites of the SSE, HKSE (in the form of Overseas Regulatory Announcement) and the Bank.

The internal control system of the Bank is primarily based on the *Articles of Association of the Bank* and is divided into three tiers including general system, specific system and evaluation system. The system covers seven major business lines such as corporate banking business, retail banking business, financial market and interbank business, risk management, business support, corporate governance and management supporting and auditing, and covers various aspects including the management of front-line businesses, intermediate and back-office risk control, supervision and evaluation. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Please refer to the “Discussion and Analysis on the Operations” for details of information relevant to the risk management system of the Bank and works during the reporting period.

The Board of Directors of the Bank periodically reviews and assesses the corporate governance, risk management and internal control. The Board of Directors believes that the system of corporate governance, risk management and internal control of the Bank is sufficient and effective during the reporting period.

## **XXI. Auditor’s Report on the Internal Control of the Bank**

Ernst & Young Hua Ming LLP has audited the internal control system of the Bank and issued an audit opinion that, as at 31 December 2016, the Bank has maintained an effective internal control on its financial reporting in all material aspects in accordance with *the Basic Standards for Internal Control System of Enterprises* and relevant regulations. The full text of the audit opinion has been published on the websites of the SSE, the HKSE (in the form of Overseas Regulatory Announcement) and the Bank.

## **XIII. Independent Auditor's Report and Financial Statements**

**China Everbright Bank Company Limited**

**Consolidated Financial Statements**

**(Prepared in accordance with International Financial Reporting Standards)**

**For the year ended 31 December 2016**

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## Independent Auditors' Report

### To the shareholders of China Everbright Bank Company Limited

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

#### Opinion

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 7 to 172, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## Independent Auditor's Report (Continued)

### Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<b><i>Impairment assessment of loans and advances to customers</i></b>	
<p>The assessment of impairment of loans and advances to customers involves significant judgment. The Group adopts individual impairment assessment approach for individually significant loans and loans with unique characteristics of the credit risk; and collective impairment assessment approach for individually assessed loans with no objective evidence of impairment on an individual basis, and homogeneous groups of loans which are not considered individually significant and not assessed individually. Under the collective approach, assessment of future cash flows for loan portfolios is based on historical loss experience of loans with similar credit risk characteristics, with adjustments based on the impact from changes of and uncertainties in macro-economic environment. The future cash flows of loans without collaterals or guarantees, or loans that are not adequately collateralized, are subject to higher uncertainties.</p> <p>Since loan impairment assessment involves judgment and assumptions, and in view of the significance of the amount (As at 31 December 2016, gross loans and advances to customers amounted to RMB1,795.278 billion, representing 44.66% of total assets, and impairment allowance for loans and advances to customers amounted to RMB43.634 billion), we consider it as a key audit matter.</p> <p>Relevant disclosures are included in Note V.18 to the consolidated financial statements.</p>	<p>We evaluated and tested the effectiveness of design and implementation of key controls relating to credit approval process, post approval credit management, loan grading system, collateral monitoring and loan impairment assessment, including testing of relevant data quality and information systems.</p> <p>We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the appropriateness of the Group's loan classification, by reviewing post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.</p> <p>We assessed the collective impairment model and considered the appropriateness of management's assumptions on classification of loan portfolios, loss identification period, migration rate, loss given default and impact of macro-economic changes for various types of loan portfolio. We also assessed management consideration of macro-economic indicators, industry trends and other changes in current economic environment. We evaluated the parameters and assumptions used in the collective impairment model, and compared them with historical loss data for loan portfolios, observable economic data, market information and industry trends.</p> <p>We tested the discounted cash flow models and the related assumptions used in individual impairment assessment by assessing the amount, timing and likelihood of estimated future cash flows, including cash flows from collaterals. We compared the assumptions with available external information.</p> <p>Furthermore, we evaluated and tested the design and operating effectiveness of internal controls over the financial statements disclosure on credit risk and impairment allowance.</p>

## Independent Auditor's Report (Continued)

### Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<b>Valuation of financial instruments</b>	
<p>The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques, in particularly those required significant unobservable inputs, usually involve subjective judgment and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly.</p>	<p>We assessed and tested the design and operating effectiveness of key controls related to valuation of financial instruments, including relevant data quality and IT systems involved.</p>
<p>As at 31 December 2016, financial assets and financial liabilities measured at fair value amounted to RMB437.515 billion and RMB231.258 billion respectively, representing 10.88% and 6.14% of total assets and total liabilities respectively. Financial instruments which required either directly (i.e. as prices) or indirectly (i.e. derived from prices) inputs, hence categorized within level 2 of the fair value hierarchy, represented 91.32% of total financial assets measured at fair value; Financial instruments which required significant unobservable inputs, hence categorized within level 3 of the fair value hierarchy, represented 0.01% of total financial assets measured at fair value. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter.</p>	<p>We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources.</p>
<p>Relevant disclosures are included in Note V.52 to the consolidated financial statements.</p>	<p>We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value. We also assessed whether relevant fair value and sensitivity disclosures in the annual report adequately presented the risk of the Group.</p>



## Independent Auditor's Report (Continued)

### Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<b><i>Unconsolidated structured entities</i></b>	
<p>The Group established various structured entities, such as bank wealth management products, funds, trust plans, in conducting asset management business and investments. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking consideration of power arising from rights, variable returns, and link between power and returns.</p>	<p>We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls structured entities.</p>
<p>The assessment of the Group's control over structured entities involves significant judgment and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. Due to the significance of the unconsolidated structured entities and the complexity of judgment exercised by the management, it is considered a key audit matter.</p>	<p>We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyze whether the Group has obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities.</p>
<p>Relevant disclosures are included in Note V.44 to the consolidated financial statements.</p>	<p>Furthermore, we assessed and tested the design and operating effectiveness of the Group's controls over its disclosures of unconsolidated structured entities.</p>

## **Independent Auditor's Report (Continued)**

### **Other Information included in the Bank's 2016 Annual Report**

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Directors for the Consolidated Financial Statements**

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## **Independent Auditor's Report (Continued)**

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)**

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Shing Kit.

Ernst & Young  
Certified Public Accountants  
Hong Kong  
30 March 2017

China Everbright Bank Company Limited  
Consolidated Statement of Profit or Loss  
For the Year Ended 31 December 2016  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>Note V</u>	<u>2016</u>	<u>2015</u>
Interest income		143,450	141,907
Interest expense		<u>(78,162)</u>	<u>(75,448)</u>
<b>Net interest income</b>	1	65,288	66,459
Fee and commission income		29,932	27,745
Fee and commission expense		<u>(1,820)</u>	<u>(1,444)</u>
<b>Net fee and commission income</b>	2	28,112	26,301
Net trading gains	3	223	335
Dividend income		5	4
Net (losses)/gains arising from investment securities	4	(261)	13
Net foreign exchange gains /(losses)		338	(72)
Other net operating income		660	324
<b>Operating income</b>		94,365	93,364
<b>Operating expenses</b>	5	<u>(30,254)</u>	<u>(32,354)</u>
<b>Operating profit before impairment</b>		64,111	61,010
Impairment losses on assets	8	<u>(23,931)</u>	<u>(21,652)</u>
<b>Profit before tax</b>		40,180	39,358
Income tax	9	<u>(9,792)</u>	<u>(9,781)</u>
<b>Net profit</b>		<u>30,388</u>	<u>29,577</u>
<b>Net profit attributable to:</b>			
Equity shareholders of the Bank		30,329	29,528
Non-controlling interests		59	49
		<u>30,388</u>	<u>29,577</u>
Basic and diluted earnings per ordinary share (in RMB)	10	<u>0.63</u>	<u>0.63</u>

The notes on pages 17 to 172 form part of these financial statements.

China Everbright Bank Company Limited  
Consolidated Statement of Comprehensive Income  
For the Year Ended 31 December 2016  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>Note V</u>	<u>2016</u>	<u>2015</u>
<b>Net profit</b>		<u>30,388</u>	<u>29,577</u>
<b>Other comprehensive income:</b>			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
– Net change in fair value		(5,165)	4,964
– Reclassified to profit or loss upon disposal		592	53
– Related income tax effect	26(b)	1,143	(1,254)
Exchange differences on translation of financial statements of overseas subsidiaries		33	8
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits	33(b)	<u>(23)</u>	<u>(64)</u>
<b>Other comprehensive income, net of tax</b>		<u>(3,420)</u>	<u>3,707</u>
<b>Total comprehensive income</b>		<u>26,968</u>	<u>33,284</u>
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Bank		26,909	33,235
Non-controlling interests		59	49
		<u>26,968</u>	<u>33,284</u>

The notes on pages 17 to 172 form part of these financial statements.

China Everbright Bank Company Limited  
Consolidated Statement of Financial Position  
As at 31 December 2016  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>Note V</u>	31 December <u>2016</u>	31 December <u>2015</u>
<b>Assets</b>			
Cash and deposits with the central bank	11	381,620	326,735
Deposits with banks and other financial institutions	12	232,630	86,311
Placements with banks and other financial institutions	13	126,305	132,361
Financial assets at fair value through profit or loss	14	7,834	5,637
Positive fair value of derivatives	15	4,950	1,625
Financial assets held under resale agreements	16	67,000	153,045
Interests receivable	17	25,339	18,546
Loans and advances to customers	18	1,751,644	1,475,424
Finance lease receivables	19	55,560	38,735
Available-for-sale financial assets	20	425,131	222,495
Held-to-maturity investments	21	257,500	152,312
Debt securities classified as receivables	22	627,678	523,427
Fixed assets	24	14,228	12,646
Goodwill	25	1,281	1,281
Deferred tax assets	26	5,622	3,923
Other assets	27	35,720	13,207
<b>Total assets</b>		<u>4,020,042</u>	<u>3,167,710</u>

The notes on pages 17 to 172 form part of these financial statements.

China Everbright Bank Company Limited  
Consolidated Statement of Financial Position (continued)  
As at 31 December 2016  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>Note V</u>	31 December <u>2016</u>	31 December <u>2015</u>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Due to the central bank		187,000	14,840
Deposits from banks and other financial institutions	29	830,354	541,066
Placements from banks and other financial institutions	30	95,501	60,305
Negative fair value of derivatives	15	4,368	1,391
Financial assets sold under repurchase agreements	31	41,195	58,873
Deposits from customers	32	2,120,887	1,993,843
Accrued staff costs	33	7,776	11,217
Taxes payable	34	4,501	6,392
Interests payable	35	33,576	30,612
Debt securities issued	36	412,500	210,061
Other liabilities	37	31,316	15,063
<b>Total liabilities</b>		<u>3,768,974</u>	<u>2,943,663</u>

The notes on pages 17 to 172 form part of these financial statements.

China Everbright Bank Company Limited  
Consolidated Statement of Financial Position (continued)  
As at 31 December 2016  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>Note V</u>	31 December <u>2016</u>	31 December <u>2015</u>
<b>Equity</b>			
Share capital	38	46,679	46,679
Other equity instrument	39	29,947	19,965
Capital reserve	40	33,365	33,365
Other comprehensive income	41	509	3,929
Surplus reserve	42	17,951	14,964
General reserve	42	51,447	40,271
Retained earnings	43	70,557	64,320
Total equity attributable to equity shareholders of the Bank		250,455	223,493
Non-controlling interests		613	554
<b>Total equity</b>		<u>251,068</u>	<u>224,047</u>
<b>Total liabilities and equity</b>		<u>4,020,042</u>	<u>3,167,710</u>

Approved and authorised for issue by the board of directors on 30 March 2017.

Tang Shuangning  
Chairman of the Board  
of Directors,  
Non-executive Director

Zhang Jinliang  
President  
Executive Director

Xie Rong  
Independent Non-executive  
Director

The notes on pages 17 to 172 form part of these financial statements.



China Everbright Bank Company Limited  
Consolidated Statement of Changes in Equity  
For the Year Ended 31 December 2016  
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	Attributable to equity shareholders of the Bank							Sub-total	Non-controlling interests	Total
		Share Capital	Other equity instrument	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings			
Balance at 1 January 2016		46,679	19,965	33,365	3,929	14,964	40,271	64,320	223,493	554	224,047
Changes in equity for the year:											
Net income		-	-	-	-	-	-	30,329	30,329	59	30,388
Other comprehensive income	41	-	-	-	(3,420)	-	-	-	(3,420)	-	(3,420)
Capital injection by preference shareholders		-	9,982	-	-	-	-	-	9,982	-	9,982
Appropriation of profit:	43										
- Appropriation to surplus reserve		-	-	-	-	2,987	-	(2,987)	-	-	-
- Appropriation to general reserve		-	-	-	-	-	11,176	(11,176)	-	-	-
- Dividends to common shareholders		-	-	-	-	-	-	(8,869)	(8,869)	-	(8,869)
- Dividends to preference shareholders		-	-	-	-	-	-	(1,060)	(1,060)	-	(1,060)
Balance at 31 December 2016		<u>46,679</u>	<u>29,947</u>	<u>33,365</u>	<u>509</u>	<u>17,951</u>	<u>51,447</u>	<u>70,557</u>	<u>250,455</u>	<u>613</u>	<u>251,068</u>

The notes on pages 17 to 172 form part of these financial statements.

China Everbright Bank Company Limited  
 Consolidated Statement of Changes in Equity (continued)  
 For the Year Ended 31 December 2016  
 (Expressed in millions of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank								Non-controlling interests	Total	
	Note V	Share Capital	Other equity instrument	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings			Sub-total
Balance at 1 January 2015		46,679	-	33,365	222	12,050	33,903	52,756	178,975	508	179,483
Changes in equity for the year:											
Net income		-	-	-	-	-	-	29,528	29,528	49	29,577
Other comprehensive income	41	-	-	-	3,707	-	-	-	3,707	-	3,707
Capital injection by preference shareholders		-	19,965	-	-	-	-	-	19,965	-	19,965
Appropriation of profit:	43										
- Appropriation to surplus reserve		-	-	-	-	2,914	-	(2,914)	-	-	-
- Appropriation to general reserve		-	-	-	-	-	6,368	(6,368)	-	-	-
- Dividends to common shareholders		-	-	-	-	-	-	(8,682)	(8,682)	(3)	(8,685)
Balance at 31 December 2015		<u>46,679</u>	<u>19,965</u>	<u>33,365</u>	<u>3,929</u>	<u>14,964</u>	<u>40,271</u>	<u>64,320</u>	<u>223,493</u>	<u>554</u>	<u>224,047</u>

The notes on pages 17 to 172 form part of these financial statements.

China Everbright Bank Company Limited  
Consolidated Cash Flow Statement  
For the Year Ended 31 December 2016  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Net profit	30,388	29,577
<i>Adjustments for:</i>		
Impairment losses on assets	23,931	21,652
Depreciation and amortisation	2,182	2,105
Unwinding of discount	(876)	(802)
Dividends income	(5)	(4)
Unrealised foreign exchange gains	(632)	(419)
Net losses/(gains) on disposal of investment securities	261	(13)
Net gains on disposal of trading securities	(10)	(294)
Revaluation gains on financial instruments at fair value through profit or loss	(213)	(41)
Interest expense on debt securities issued	11,299	6,570
Net losses on disposal of fixed assets	8	9
Income tax	9,792	9,781
	<u>76,125</u>	<u>68,121</u>
 <i>Changes in operating assets</i>		
Net increase in deposits with the central bank, banks and other financial institutions	(51,367)	(25,986)
Net (increase)/decrease in placements with banks and other financial institutions	(24,247)	31,780
Net increase in loans and advances to customers	(297,953)	(223,635)
Net decrease in financial assets held under resale agreements	87,060	135,332
Net increase in other operating assets	(33,292)	(27,418)
	<u>(319,799)</u>	<u>(109,927)</u>

The notes on pages 17 to 172 form part of these financial statements.

China Everbright Bank Company Limited  
Consolidated Cash Flow Statement (Continued)  
For the Year Ended 31 December 2016  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities (continued)</b>		
<i>Changes in operating liabilities</i>		
Net increase in deposits from banks and other financial institutions	289,288	33,879
Net increase in placements from banks and other financial institutions	35,196	23,561
Net (decrease) /increase in financial assets sold under repurchase agreements	(17,720)	7,168
Net increase/(decrease) in amount due to central bank	172,160	(15,200)
Net increase in deposits from customers	127,044	208,506
Income tax paid	(12,126)	(9,367)
Net (decrease) /increase in other operating liabilities	(489)	4,659
	<u>593,353</u>	<u>253,206</u>
<b>Net cash flows from operating activities</b>	<u>349,679</u>	<u>211,400</u>
<b>Cash flows from investing activities</b>		
Proceeds from disposal and redemption of investments	470,303	186,122
Proceeds from dividends income	5	4
Proceeds from disposal of fixed assets and other assets	212	42
Payments on acquisition of investments	(890,635)	(497,518)
Payments on acquisition of fixed assets, intangible assets and other long-term assets	(3,210)	(1,782)
<b>Net cash flows used in investing activities</b>	<u>(423,325)</u>	<u>(313,132)</u>

The notes on pages 17 to 172 form part of these financial statements.

China Everbright Bank Company Limited  
Consolidated Cash Flow Statement (Continued)  
For the Year Ended 31 December 2016  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>Note V</u>	<u>2016</u>	<u>2015</u>
<b>Cash flows from financing activities</b>			
Net proceeds from issue of preference shares		9,982	19,965
Net proceeds from issue of new debt securities		202,440	157,004
Cash paid on debts securities redeemed		-	(36,619)
Interest paid on debt securities issued		(11,350)	(6,552)
Dividends paid		(9,938)	(8,691)
<b>Net cash flows from financing activities</b>		<u>191,134</u>	<u>125,107</u>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>			
		<u>2,055</u>	<u>588</u>
<b>Net increase in cash and cash equivalents</b>	47(a)	119,543	23,963
<b>Cash and cash equivalents as at 1 January</b>		<u>121,964</u>	<u>98,001</u>
<b>Cash and cash equivalents as at 31 December</b>	47(b)	<u>241,507</u>	<u>121,964</u>
Interest received		<u>135,397</u>	<u>136,669</u>
Interest paid (excluding interest expense on debt securities issued)		<u>(63,806)</u>	<u>(68,298)</u>

The notes on pages 17 to 172 form part of these financial statements.

## **I BACKGROUND INFORMATION**

China Everbright Bank Company Limited (the “Bank”) commenced its operations in Beijing, the People’s Republic of China (“the PRC”) on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank is licensed as a financial institution by the China Banking Regulatory Commission (the “CBRC”) No. B0007H111000001 and is issued the business license of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, P. R. China.

The principal activities of the Bank and its subsidiaries (Note V 23) (collectively the “Group”) are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the China Banking Regulatory Commission (the “CBRC”). The Bank mainly operates in mainland China, which, for the purpose of the report, excludes the Hong Kong Special Administration Region of the PRC (“Hong Kong”), the Macau Special Administration Region of the PRC and Taiwan.

The Bank has branches in 30 provinces, autonomous regions, municipalities in mainland China, Hong Kong and Seoul in South Korea as at 31 December 2016.

These financial statements have been approved by the Board of Directors on 30 March 2017.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES**

### **1 Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets available for sale and financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) are measured at their fair values in the consolidated financial statement. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 1 Basis of preparation (continued)

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the “Accounting Standards for Business Enterprises-Basic Standard” issued by the Ministry of Finance of the People’s Republic of China (the “MOF”), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the “PRC GAAP”). There is no difference in the net profit for the year or total equity as at the end of the year between the Group’s consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

#### 1.1 Standards, amendments and interpretations effective in 2016

On 1 January 2016, the Group adopted the following new standards, amendments and interpretations.

IAS 27 Amendments	<i>Equity Method in Separate Financial Statements</i>
IFRS 10, IFRS 12 and IAS 28 Amendments	<i>Investment Entities: Applying the Consolidation Exception</i>
IAS 1 Amendments	<i>Disclosure Initiative</i>
IAS 16 and IAS 38 Amendments	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Annual Improvements to IFRSs 2012-2014 cycle (issued in September 2014)	

IAS 27 Amendments allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The amendments to IFRS 10, IFRS 12 and IAS 28 address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exception from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

The amendments to IAS 1 include narrow-focus improvements in materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **1 Basis of preparation (continued)**

#### **1.1 Standards, amendments and interpretations effective in 2016 (continued)**

The amendments to IAS 16 and IAS 38 clarifies that revenue reflects a pattern of economic benefits that are generated from operating a business rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

Annual Improvements to IFRSs 2012-2014 cycle :

##### *IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.

##### *IFRS 7 Financial Instruments: Disclosures*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in order to assess whether the disclosures are required. In addition, the amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

##### *IAS 19 Employee benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

The adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.



## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 1 Basis of preparation (continued)

#### 1.2 *Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2016*

		Effective for annual periods beginning on or after
IAS 7 Amendments	<i>Statement of Cash Flow</i>	1 January 2017
IAS 12 Amendments	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
IAS 40 Amendments	<i>Transfers of Investment Property</i>	1 January 2018
IFRS 2 Amendments	<i>Share-based Payment</i>	1 January 2018
IFRS 4 Amendments	<i>Insurance Contracts</i>	1 January 2018
IFRS 9	<i>Financial Instruments</i>	1 January 2018
IFRS 15 and Amendments	<i>Revenue from Contracts with Customers</i>	1 January 2018
IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
IFRS 16	<i>Leases</i>	1 January 2019
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2014-2016 cycle (issued in December 2016)		

The amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendments to IAS 12 clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

IAS 40 Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The International Accounting Standards Board ("IASB") issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **1 Basis of preparation (continued)**

#### **1.2 *Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2016 (continued)***

The IASB issued amendments to IFRS 4 that address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

In July 2014, the IASB issued the final version of IFRS 9 - *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 - *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

IFRIC *Interpretation 22* clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

IFRS 16 - *Leases* requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 *Leases*. The scope of the new standard includes leases of all assets, with certain exceptions.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **1 Basis of preparation (continued)**

#### **1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2016 (continued)**

Annual Improvements to IFRSs 2014-2016 cycle:

##### *IAS 28 Investments in Associates and Joint Ventures*

The amendments clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. The amendments are effective from 1 January 2018.

##### *IFRS 1 First-time Adoption of International Financial Reporting Standards*

Short-term exemptions for first-time adopters in IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018.

##### *IFRS 12 Disclosure of Interests in Other Entities*

The amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from 1 January 2017.

The Group is in the process of assessing the impact of these new standards amendments and interpretations on the consolidated and separate financial statements of the Group and the Bank respectively.

### **2 Consolidation**

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If the changes of the relevant facts and circumstances resulting in the definition of control involved in the changes of relevant elements, the Group will re-evaluate whether subsidiaries are controlled.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **2 Consolidation (continued)**

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.

### **3 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, non-restricted balances with central banks, short-term deposits and placements with banks and other financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **4 Foreign currency translation**

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit and loss, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the statement of profit and loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available for sale are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as “Net trading gains” in the statement of profit and loss.

Assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rate at the balance sheet date. Equity items, excluding “Retained Earnings”, are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders' equity with respect to a foreign operation are transferred to profit or loss in the period when the foreign operation is disposed.

### **5 Financial instruments**

#### **5.1 Classification**

The Group classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets.

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

The Group determines the classification of its financial assets and financial liabilities at initial recognition.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (continued)**

#### **5.1 Classification (continued)**

##### *(1) Financial assets and financial liabilities at fair value through profit or loss*

Financial assets and financial liabilities at fair value through profit or loss have two sub-categories: financial assets and financial liabilities held for trading, and those designated as at fair value through profit or loss at inception.

- acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- a derivative except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract.

A financial asset or financial liability is classified at fair value through profit or loss at inception if it meets either of the following criteria and is designated as such by management on initial recognition:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; or
- the financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

##### *(2) Held-to-maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and that do not meet the definition of loans and receivables nor are designated as at fair value through profit or loss or as available for sale.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (continued)**

#### **5.1 Classification (continued)**

##### *(2) Held-to-maturity investments (continued)*

The Group shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held to maturity investments before maturity other than restricted circumstances such as sales or reclassifications due to a significant deterioration in the issuer's creditworthiness or industry's regulatory requirements.

##### *(3) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- (a) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (c) those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise loans and advances to customers, debt securities classified as receivables, deposits and placements with banks and other financial institutions and financial assets held under resale agreements.

##### *(4) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

##### *(5) Precious metals*

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (continued)**

#### **5.1 Classification (continued)**

##### *(6) Other financial liabilities*

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other non-derivative financial liabilities.

#### **5.2 Initial recognition**

A financial asset or financial liability is recognised on trade-date, the date when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss. For other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

#### **5.3 Subsequent measurement**

Financial assets available for sale and financial assets and financial liabilities at fair value through profit or loss are subsequently carried at fair value. Financial assets classified as loans and receivables and held to maturity and other financial liabilities are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets and financial liabilities at fair value through profit or loss category are included in the statement of profit and loss in the period in which they arise. Dividends on equity instruments of this category are also recognised in the statement of profit and loss when the Group's right to receive payments is established.

Gains and losses arising from changes in the fair value of available for sale assets are recognised in "Other comprehensive income", until the financial asset is de-recognised or impaired. At this time the cumulative gain or loss previously recognised in "Other comprehensive income" is reclassified from equity to the statement of profit and loss. Interest on available for sale debt instruments calculated using the effective interest method as well as dividends on equity instruments of this category when the Group's right to receive such payments is established are recognised in the statement of profit and loss.



## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (continued)**

#### **5.4 Determination of fair value**

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

#### **5.5 De-recognition of financial instruments**

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (continued)**

#### **5.6 Impairment of financial assets**

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the year to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence includes the following loss event:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- a significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of equity instrument below its initial cost by 50% or more; or fair value below cost for one year or longer. The Group will consider other relevant factors, such as the price volatility, to determine whether an impairment loss should be recognised for the equity instrument if the decline in the fair value of an equity instrument is more than 20% (20% inclusive) but less than 50% of its initial investment cost; or
- other objective evidence indicating impairment of the financial asset.

##### *(1) Loans and receivables*

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

##### *Individual assessment*

Loans and receivables, which are considered individually significant or with unique characteristics of the credit risk are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognised in profit or loss.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (continued)**

#### **5.6 Impairment of financial assets (continued)**

##### *(1) Loans and receivables (continued)*

###### *Individual assessment (continued)*

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

###### *Collective assessment*

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

###### *Homogeneous groups of loans not considered individually significant*

For homogeneous groups of loans that are not considered individually significant, the Group adopts a flow rate methodology to collectively assess impairment losses. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgement based on management's historical experience.

###### *Individually assessed loans and receivables with no objective evidence of impairment on an individual basis*

Loans and receivables which are individually significant and therefore have been individually assessed but for which no objective evidence of impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and advances that were impaired at the end of the year but which will not be individually identified as such until some time in the future.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (continued)**

#### **5.6 Impairment of financial assets (continued)**

##### *(1) Loans and receivables (continued)*

*Individually assessed loans and receivables with no objective evidence of impairment on an individual basis (continued)*

The collective impairment loss is assessed after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- the emergence period between a loss occurring and that loss being identified;  
and
- the current economic and credit environments and the judgement on inherent loss based on management's historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan is written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loan written off is recovered, the amount recovered is recognised in profit or loss through impairment losses.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (continued)**

#### **5.6 Impairment of financial assets (continued)**

##### *(1) Loans and receivables (continued)*

Rescheduled loans and receivables are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, and the provision is calculated using the loan's original effective interest rate.

##### *(2) Held-to-maturity investments*

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

##### *(3) Available-for-sale financial assets*

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss recognised in "Other comprehensive income" is reclassified from equity to the income statement and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (continued)**

#### **5.6 Impairment of financial assets (continued)**

##### *(3) Available-for-sale financial assets (continued)*

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the previously recognised impairment loss is reversed through the income statement.

With respect to equity instruments, impairment losses recognised in the income statement are not subsequently reversed through the income statement. If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the impairment loss is not reversed.

#### **5.7 Derivative financial instruments**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. Credit risk valuation adjustments are applied to the Group's over-the-counter derivatives to reflect the credit risk of the counterparties and the Group respectively. They are dependent on expected future values of exposures for each counterparty and default probabilities, etc. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit or loss on the date of transaction.

#### **5.8 Preference share**

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms and the economic substance combined with the definition of financial assets, financial liabilities and equity instruments.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (continued)**

#### **5.8 Preference share (continued)**

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy as accounting for the convertible bonds only with liability component.

For the issued preference shares that should be classified as equity instruments, will be recognised as equity in actual amount received. Dividends payables are recognised as distribution of profits. Redemption before maturity will write down equity as redemption price.

#### **5.9 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### **6 Financial assets held under resale and repurchase agreements**

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised respectively as interest income and interest expense over the life of each agreement using the effective interest method.

### **7 Investment in subsidiaries**

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note II 2.

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognised at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note II 13) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 8 Fixed assets

Fixed assets are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's fixed assets mainly comprise premisses, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of profit and loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit and loss.

#### 8.1 Premises, electronic equipment and others

Fixed assets are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

<u>Asset category</u>	<u>Estimated useful life(years)</u>	<u>Estimated rate of residual value(%)</u>	<u>Depreciation rate(%)</u>
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4



## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **8 Fixed assets (continued)**

#### **8.2 Aircraft**

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate of 15%.

#### **8.3 Construction in progress**

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

### **9 Leases**

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

#### **9.1 Operating lease charges**

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

#### **9.2 Assets leased-out under finance lease**

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the end of the year, finance lease receivables, net of unearned finance income, are presented as finance lease receivables in the statements of financial position. The difference between the receivable and the present value of the receivable is recognised as unearned finance income.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **9 Leases (continued)**

#### **9.2 Assets leased-out under finance lease (continued)**

The unguaranteed residual values are reviewed at least at each year end. Any excess of the carrying amount of the unguaranteed residual values over their estimated recoverable amounts is recognised as impairment loss. If there is an indication that there has been a change in the factors used to determine the provision for impairment losses and as a result the estimated recoverable amount of the unguaranteed residual values is greater than its carrying amount, the impairment loss recognised in prior periods is reversed. Reversals of impairment losses are recognised in profit or loss.

### **10 Intangible assets**

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit and loss.

The respective amortisation periods for intangible assets are as follows:

<u>Asset category</u>	<u>Estimated useful lives (years)</u>
Computer software	5
Others	5-10

### **11 Goodwill**

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 13). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of the profit or loss on disposal.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **12 Repossessed assets**

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The initial cost of repossessed assets is measured at the lower of the net carrying amount of loans and advances and the fair value of the assets less costs to sell on the acquisition date. Repossessed assets are not depreciated or amortised. The impairment losses of initial measurement and subsequent revaluation are charged to the profit or loss.

### **13 Provision for impairment losses on non-financial assets**

The carrying amounts of the following assets are reviewed at the end of the year based on the internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets;
- construction in progress;
- intangible assets;
- goodwill;
- investment in subsidiaries.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **13 Provision for impairment losses on non-financial assets (continued)**

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognized the impairment loss in the income statement. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

### **14 Employee benefits**

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

#### **14.1 Short-term employee benefits**

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **14 Employee benefits (continued)**

#### **14.1 Short-term employee benefits (continued)**

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

#### **14.2 Post-employment benefits-defined contribution plans**

Pursuant to the relevant laws and regulations of the PRC, the Group participated in a defined contribution basic pension insurance in the social insurance system established and managed by government organizations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

#### **14.3 Termination benefits**

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognise termination benefits in profit or loss at the earlier of:

- When the Group can no longer withdraw an offer of those benefits; and
- When the Group has a specific, formal restructure plan involving payment of termination benefits, and the plan has started or informed each affected party about the influence of the plan, therefore each party formed reasonable expectations.

#### **14.4 Early retirement benefits**

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **15 Financial guarantees, provisions and contingent liabilities**

#### **15.1 Financial guarantees**

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (“holder”) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in other liabilities. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statements of financial position as stated in Note II 15.2 if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

#### **15.2 Other provisions and contingent liabilities**

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

### **16 Fiduciary activities**

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **17 Income recognition**

Income is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders. Income is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the income and costs can be measured reliably and the following respective conditions are met:

#### **17.1 Interest income**

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognised using the rate of interest used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

#### **17.2 Fee and commission income**

Fee and commission income is recognised in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognised as fee and commission income upon its expiry.

#### **17.3 Other income**

Other income is recognised on an accrual basis.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **18 Expenses recognition**

#### **18.1 Interest expenses**

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

#### **18.2 Other expenses**

Other expenses are recognised on an accrual basis.

### **19 Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and



## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **19 Income tax (continued)**

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **20 Dividends**

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting period are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

### **21 Related parties**

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **22 Segment reporting**

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

## **III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

### **1 Impairment losses on loans and receivables, available-for-sale financial assets and held-to-maturity investments**

The Group reviews portfolios of loans and receivables, available-for-sale financial assets and held-to-maturity investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for personal loans, available-for-sale financial assets and held-to-maturity investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans and receivables, and held-to-maturity investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

### **III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)**

#### **1 Impairment losses on loans and receivables, available-for-sale financial assets and held-to-maturity investments (continued)**

The objective evidence of impairment for available-for-sale financial assets includes significant or continual decline in fair value of investment. When deciding whether there is significant or continual decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

#### **2 Fair value of financial instruments**

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

#### **3 The classification of the held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments, if the Group has the intention and ability to hold them until maturity. In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

### **III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)**

#### **4 Income taxes**

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

#### **5 Impairment of non-financial assets**

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

#### **6 Depreciation and amortisation**

Fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

### **III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)**

#### **7 Judgement in assessing control over structured entities**

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes consideration of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

### **IV TAXATION**

The Group's main applicable taxes and tax rates are as follows:

(a) Value-added tax

Value-added tax is charged at 6% or 17% on taxable added value.

(b) Business tax

Business tax is charged at 5% on taxable income. From 1 May 2016, business tax was replaced by value-added tax.

(c) City construction tax

City construction tax is calculated as 1%-7% of business tax.

(d) Education surcharge

Education surcharge is calculated as 3% of business tax.

(e) Income tax

The income tax is calculated on taxable income. The statutory income tax rate of the Bank and domestic subsidiaries is 25%. The statutory income tax rate of CEB International Investment Co., Ltd., the Hong Kong subsidiary, is 16.5%.

China Everbright Bank Company Limited  
Notes to the Consolidated Financial Statements (Continued)  
For the Year Ended 31 December 2016  
(Expressed in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1 Net interest income**

	<u>Note</u>	<u>2016</u>	<u>2015</u>
<b>Interest income arising from</b>			
Deposits with the central bank		5,306	5,120
Deposits with banks and other financial institutions		4,610	2,137
Placements with banks and other financial institutions		4,412	3,110
Loans and advances to customers	(a)		
– Corporate loans and advances		47,906	51,387
– Personal loans and advances		27,035	28,199
– Discounted bills		2,761	2,959
Finance lease receivables		2,012	1,426
Financial assets held under resale agreements		2,848	8,768
Investments		<u>46,560</u>	<u>38,801</u>
Sub-total		<u>143,450</u>	<u>141,907</u>
<b>Interest expenses arising from</b>			
Due to the central bank		2,223	642
Deposits from banks and other financial institutions		19,334	18,277
Placements from banks and other financial institutions		2,082	1,224
Deposits from customers			
– Corporate customers		25,867	30,830
– Individual customers		4,064	5,017
– Structured deposits from corporate customers		6,168	4,985
– Structured deposits from individual customers		5,352	6,706
Financial assets sold under repurchase agreements		1,773	1,197
Debt securities issued	(b)	<u>11,299</u>	<u>6,570</u>
Sub-total		<u>78,162</u>	<u>75,448</u>
<b>Net interest income</b>		<u>65,288</u>	<u>66,459</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1 Net interest income (continued)**

*Note:*

- (a) The interest income arising from impaired financial assets in 2016 amounted to RMB876 million (2015: RMB802 million).
- (b) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

**2 Net fee and commission income**

	<u>2016</u>	<u>2015</u>
<b>Fee and commission income</b>		
Bank card service fees	14,212	12,491
Wealth management service fees	7,472	7,253
Agency services fees	1,854	1,169
Custody and other fiduciary business fees	1,614	1,740
Underwriting and advisory fees	1,442	1,512
Settlement and clearing fees	934	1,312
Acceptance and guarantee fees	828	1,078
Others	1,576	1,190
	<u>29,932</u>	<u>27,745</u>
<b>Fee and commission expense</b>		
Bank card transaction fees	1,320	1,151
Settlement and clearing fees	97	83
Others	403	210
	<u>1,820</u>	<u>1,444</u>
<b>Net fee and commission income</b>	<u>28,112</u>	<u>26,301</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3 Net trading gains**

	<u>2016</u>	<u>2015</u>
Trading financial instruments		
- Derivatives	339	(67)
- Debt securities	<u>(148)</u>	<u>376</u>
Sub-total	<u>191</u>	<u>309</u>
Financial instruments designated at fair value through profit or loss	<u>32</u>	<u>26</u>
Total	<u>223</u>	<u>335</u>

**4 Net (losses)/gains arising from investment securities**

	<u>2016</u>	<u>2015</u>
Net gains/(losses) on disposal of available-for-sale financial assets	331	(63)
Net revaluation (losses)/gains reclassified from other comprehensive income on disposal	(592)	53
Net gains on disposal of held-to-maturity investments	-	12
Net gains on disposal of debt securities classified as receivables	<u>-</u>	<u>11</u>
Total	<u>(261)</u>	<u>13</u>



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5 Operating expenses**

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Staff costs			
– Salaries and bonuses		10,642	10,343
– Pension and annuity		1,569	1,470
– Housing allowances		634	590
– Staff welfares		336	295
– Supplementary retirement benefits		251	38
– Others		<u>1,739</u>	<u>1,532</u>
Sub-total		<u>15,171</u>	<u>14,268</u>
Premises and equipment expenses			
– Rental and property management expenses		2,558	2,385
– Depreciation of fixed assets		1,461	1,442
– Amortisation of other long-term assets		428	417
– Amortisation of intangible assets		<u>293</u>	<u>246</u>
Sub-total		<u>4,740</u>	<u>4,490</u>
Tax and surcharges		2,885	7,096
Other general and administrative expenses	(a)	<u>7,458</u>	<u>6,500</u>
Total		<u><u>30,254</u></u>	<u><u>32,354</u></u>

Note:

(a) Auditors' remuneration for the year ended 31 December 2016 was RMB6.83 million (2015: RMB9.90 million).

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6 Directors' and supervisors' emoluments**

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows:

		2016							
		<u>Discretionary bonus</u>				<u>Contributions to social pension schemes</u>		<u>Other welfares</u>	<u>Total</u>
Note	<u>Fees</u>	<u>Salaries</u>	<u>Paid</u>	<u>Payable</u>	<u>Sub-total</u>	<u>to social pension schemes</u>	<u>Other welfares</u>	<u>Total</u>	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Executive directors</b>									
Zhang Jinliang	(i)	-	339	-	-	339	34	97	470
Ma Teng		-	1,150	-	-	1,150	40	106	1,296
Li Jie	(i)	-	1,150	-	-	1,150	40	106	1,296
<b>Non-executive directors</b>									
Tang Shuangning		-	-	-	-	-	-	-	-
Gao Yunlong		-	-	-	-	-	-	-	-
Zhang Shude	(ii)	-	-	-	-	-	-	-	-
Li Huaqiang	(ii)	-	-	-	-	-	-	-	-
Zhao Wei		-	-	-	-	-	-	-	-
Wu Gang	(ii)	-	-	-	-	-	-	-	-
<b>Independent non-executive directors</b>									
Fok Oi Ling		370	-	-	-	370	-	-	370
Qiao Zhimin		390	-	-	-	390	-	-	390
Xie Rong		370	-	-	-	370	-	-	370
Xu Hongcai		-	-	-	-	-	-	-	-
Feng Lun		350	-	-	-	350	-	-	350
Zhang Xinze	(iii)	-	-	-	-	-	-	-	-

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6 Directors' and supervisors' emoluments (continued)**

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows (continued):

	Note	2016					Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
		<u>Fees</u> RMB'000	<u>Salaries</u> RMB'000	<u>Discretionary bonus</u>		<u>Sub-total</u> RMB'000			
				<u>Paid</u> RMB'000	<u>Payable</u> RMB'000				
<b>Supervisors</b>									
Li Xin		-	1,163	-	-	1,163	40	106	1,309
Mu Huijun		-	1,150	-	-	1,150	40	106	1,296
Yin Lianchen		-	-	-	-	-	-	-	-
Wu Junhao		-	-	-	-	-	-	-	-
Yu Erniu		300	-	-	-	300	-	-	300
Wu Gaolian	(iv)	150	-	-	-	150	-	-	150
Deng Ruilin	(iv)	73	-	-	-	73	-	-	73
Wang Zhe	(iv)	21	-	-	-	21	-	-	21
Ye Donghai		-	703	1,231	-	1,934	42	105	2,081
Liu Yan	(iv)	-	412	564	-	976	21	55	1,052
<b>Former executive directors</b>									
Zhao Huan	(i)	-	-	-	-	-	-	-	-
<b>Former non-executive director</b>									
Wu Jian	(ii)	-	-	-	-	-	-	-	-
Wang Shumin	(ii)	-	-	-	-	-	-	-	-
Wu Gaolian	(ii)	-	-	-	-	-	-	-	-
Yang Jigui	(ii)	-	-	-	-	-	-	-	-
Liu Jun	(ii)	-	-	-	-	-	-	-	-

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6 Directors' and supervisors' emoluments (continued)**

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows (continued):

		2016							
		<u>Discretionary bonus</u>				<u>Contributions to social pension schemes</u>		<u>Other welfares</u>	<u>Total</u>
Note	<u>Fees</u> RMB'000	<u>Salaries</u> RMB'000	<u>Paid</u> RMB'000	<u>Payable</u> RMB'000	<u>Sub-total</u> RMB'000	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
<b>Former supervisors</b>									
Ma Ning	(iv)	-	506	1,057	-	1,563	21	51	1,635
James Parks Stent	(iv)	150	-	-	-	150	-	-	150
Chen Yu	(iv)	-	340	702	-	1,042	21	51	1,114
		<u>2,174</u>	<u>6,913</u>	<u>3,554</u>	<u>-</u>	<u>12,641</u>	<u>299</u>	<u>783</u>	<u>13,723</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6 Directors' and supervisors' emoluments (continued)**

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows (continued):

	2015							
	<u>Fees</u>	<u>Salaries</u>	<u>Discretionary bonus</u>		<u>Sub-total</u>	<u>Contributions to social pension schemes</u>	<u>Other welfares</u>	<u>Total</u>
			RMB'000	RMB'000				
<b>Executive directors</b>								
Zhao Huan	-	352	-	-	352	44	91	487
Zhang Jinliang	-	-	-	-	-	-	-	-
Ma Teng	-	1,009	-	-	1,009	44	243	1,296
<b>Non-executive directors</b>								
Tang Shuangning	-	-	-	-	-	-	-	-
Gao Yunlong	-	-	-	-	-	-	-	-
Wu Jian	-	-	-	-	-	-	-	-
Wu Gang	-	-	-	-	-	-	-	-
Wang Shumin	-	-	-	-	-	-	-	-
Wu Gaolian	-	-	-	-	-	-	-	-
Zhao Wei	-	-	-	-	-	-	-	-
Yang Jigui	-	-	-	-	-	-	-	-
<b>Independent non-executive directors</b>								
Fok Oi Ling	370	-	-	-	370	-	-	370
Zhang Xinze	-	-	-	-	-	-	-	-
Qiao Zhimin	390	-	-	-	390	-	-	390
Xie Rong	370	-	-	-	370	-	-	370
Xu Hongcai	283	-	-	-	283	-	-	283
Feng Lun	283	-	-	-	283	-	-	283

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6 Directors' and supervisors' emoluments (continued)**

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows (continued):

	2015							
	<u>Fees</u> RMB'000	<u>Salaries</u> RMB'000	<u>Discretionary bonus</u>		<u>Sub-total</u> RMB'000	<u>Contributions to social pension schemes</u> RMB'000	<u>Other welfares</u> RMB'000	<u>Total</u> RMB'000
			<u>Paid</u> RMB'000	<u>Payable</u> RMB'000				
<b>Supervisors</b>								
Li Xin	-	194	-	-	194	8	16	218
Mu Huijun	-	1,009	-	-	1,009	44	243	1,296
Yin Lianchen	-	-	-	-	-	-	-	-
Wu Junhao	-	-	-	-	-	-	-	-
Yu Erniu	300	-	-	-	300	-	-	300
James Parks Stent	300	-	-	-	300	-	-	300
Chen Yu	-	681	1,138	-	1,819	44	95	1,958
Ye Donghai	-	702	1,276	-	1,978	44	95	2,117
Ma Ning	-	981	1,999	-	2,980	44	95	3,119
<b>Former non-executive director</b>								
Narentuya	-	-	-	-	-	-	-	-
Wang Zhongxin	-	-	-	-	-	-	-	-
<b>Former independent non-executive director</b>								
Zhou Daojiong	-	-	-	-	-	-	-	-
<b>Former supervisors</b>								
Cai Haoyi	-	491	-	-	491	21	143	655
	<u>2,296</u>	<u>5,419</u>	<u>4,413</u>	<u>-</u>	<u>12,128</u>	<u>293</u>	<u>1,021</u>	<u>13,442</u>

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **6 Directors' and supervisors' emoluments (continued)**

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows (continued):

Note:

- (i) Mr. Zhang Jinliang was appointed as the President and executive director of the Bank on 14 January 2016, whose appointment as the President has been approved by CBRC on 22 February 2016 while the appointment as the executive director of the Bank has been approved by the CBRC on 25 August 2016. Ms. Li Jie was elected as executive director of the Bank in the board meeting held on 11 May 2016 and the appointment was approved by CBRC on 27 September 2016.

Due to the transfer of the work, Mr Zhao Huan resigned from the position of executive director of the board of directors on 14 January 2016.

- (ii) Mr. Zhang Shude and Mr. Li Huaqiang were elected as non-executive directors of the Bank on the shareholders' general meeting held on 29 June 2016 and their appointments were approved by CBRC on 27 September 2016.

Mr. Wu Jian, Ms. Wang Shumin and Mr. Wu Gaolian ceased to serve as non-executive director of the board of directors on 29 June 2016. At the same time, due to the transfer of the work, Mr. Yang Jigui and Mr. Wu Gang resigned from the position of non-executive director of the board of directors on 5 December 2016 and 16 January 2017 respectively.

Mr Liu Jun ceased to serve as non-executive director of the board of directors and on approved by CBRC 25 August 2016. Due to the transfer of the work, he esigned from the position of non-executive director of the board of directors on 18 November 2016.

- (iii) Mr. Zhang Xinze ceased to serve as non-executive director of the board of directors on 10 January 2017.

- (iv) Ms. Liu Yan was elected as the supervisor on 27 June 2016. Mr. Wu Gaolian and Mr. Deng Ruilin were elected as the supervisors in the 2015 shareholders' general meeting held on 29 June, 2016. On 15 November 2016, Mr. Wang Zhe was elected as the supervisor in the first temporary shareholders' meeting of the year 2016.

Ms. Chen Yu and Mr. Ma Ning ceased to serve as the supervisor of the Bank on 27 June 2016. Mr. James Parks Stent (Mr. Shi Weiping) ceased to serve as the supervisor of the Bank on 29 June 2016.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6 Directors' and supervisors' emoluments (continued)**

(v) The total compensation package for these directors and supervisors for the year ended 31 December 2016 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2016.

The above directors' and supervisors' emoluments for the year ended 31 December 2016 were calculated in accordance with their actual tenure.

**7 Individuals with highest emoluments**

	<u>2016</u> RMB'000	<u>2015</u> RMB'000
Salaries and other emoluments	3,461	2,538
Discretionary bonuses	17,662	24,944
Contributions to pension schemes	219	207
Others	404	362
Total	<u>21,746</u>	<u>28,051</u>

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	<u>2016</u>	<u>2015</u>
RMB3,000,001-3,500,000	-	-
RMB3,500,001-4,000,000	-	-
RMB4,000,001-4,500,000	4	-
RMB4,500,001-5,000,000	1	-
RMB5,000,001-5,500,000	-	2
RMB5,500,001-6,000,000	-	3
RMB6,000,001-6,500,000	-	-
RMB6,500,001-7,000,000	-	-

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting period.



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8 Impairment losses on assets**

	<u>2016</u>	<u>2015</u>
Loans and advances to customers	22,111	19,724
Available-for-sale financial assets	574	171
Finance lease receivables	572	411
Debt securities classified as receivables	330	1,194
Held-to-maturity investments	102	4
Others	<u>242</u>	<u>148</u>
Total	<u><u>23,931</u></u>	<u><u>21,652</u></u>

**9 Income tax**

(a) Income tax:

	<u>Note V</u>	<u>2016</u>	<u>2015</u>
Current tax		10,131	12,083
Deferred tax	26(b)	(556)	(2,143)
Adjustments for prior year	9(b)	<u>217</u>	<u>(159)</u>
Total		<u><u>9,792</u></u>	<u><u>9,781</u></u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9 Income tax (continued)**

(b) Reconciliations between income tax and accounting profit are as follows:

	<u>2016</u>	<u>2015</u>
Profit before tax	<u>40,180</u>	<u>39,358</u>
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	<u>10,045</u>	<u>9,841</u>
Effect of different tax rates applied by certain subsidiaries	3	2
Non-deductible expenses		
– Staff costs	5	43
– Impairment losses on assets	1,324	973
– Others	<u>79</u>	<u>245</u>
Sub-total	<u>1,408</u>	<u>1,261</u>
Non-taxable income		
– Interest income from the PRC government bonds	(1,880)	(1,164)
– Dividend income	<u>(1)</u>	<u>-</u>
Sub-total	<u>9,575</u>	<u>9,940</u>
Adjustments for prior year	<u>217</u>	<u>(159)</u>
Income tax	<u>9,792</u>	<u>9,781</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10 Basic and diluted earnings per ordinary share**

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	<u>2016</u>	<u>2015</u>
Profit attributable to equity holders of the Bank	30,329	29,528
Less: dividends on preference shares declared	<u>1,060</u>	<u>-</u>
Profit attributable to ordinary shareholders of the Bank	29,269	29,528
Weighted average number of ordinary shares in issue (in million shares)	<u>46,679</u>	<u>46,679</u>
Basic earnings per share (in RMB per share)	<u>0.63</u>	<u>0.63</u>

Weighted average number of ordinary shares in issue (in million shares)

	<u>2016</u>	<u>2015</u>
Issued ordinary shares as at 1 January	46,679	46,679
Add: weighted average number of shares from conversion of convertible bonds	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares in issue	<u>46,679</u>	<u>46,679</u>

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. There is no difference between basic and diluted earnings per share as there was no potentially dilutive shares outstanding during the year.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11 Cash and deposits with the central bank**

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Cash on hand		6,667	6,594
Deposits with the central bank			
– Statutory deposit reserves	(a)	303,772	287,484
– Surplus deposit reserves	(b)	66,255	27,553
– Foreign currency risk reserves	(c)	1,433	154
– Fiscal deposits		3,493	4,950
Sub-total		374,953	320,141
Total		381,620	326,735

Note:

- (a) The Group places statutory deposit reserves with the People’s Bank of China (the “PBOC”) in accordance with relevant regulations. As at the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:

	31 December <u>2016</u>	31 December <u>2015</u>
Reserve ratio for RMB deposits	15.0%	15.0%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The statutory deposit reserves are not available for the Group’s daily business.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.
- (c) The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 31 December 2016, the foreign currency risk reserve ratio was 20%( As at 31 December 2015: 20%).

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12 Deposits with banks and other financial institutions**

Analysed by type and location of counterparty

	31 December <u>2016</u>	31 December <u>2015</u>
Deposits in mainland China		
– Banks	224,635	80,192
– Other financial institutions	<u>278</u>	<u>299</u>
Sub-total	<u>224,913</u>	<u>80,491</u>
Deposits outside mainland China		
– Banks	<u>7,754</u>	<u>5,850</u>
Sub-total	<u>7,754</u>	<u>5,850</u>
Total	232,667	86,341
Less: Provision for impairment losses	<u>(37)</u>	<u>(30)</u>
Net balances	<u><u>232,630</u></u>	<u><u>86,311</u></u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13 Placements with banks and other financial institutions**

Analysed by type and location of counterparty

	31 December <u>2016</u>	31 December <u>2015</u>
Placements in mainland China		
– Banks	10,874	19,536
– Other financial institutions	<u>97,520</u>	<u>79,529</u>
Sub-total	<u>108,394</u>	<u>99,065</u>
Placements outside mainland China		
– Banks	<u>17,914</u>	<u>33,297</u>
Sub-total	<u>17,914</u>	<u>33,297</u>
Total	126,308	132,362
Less: Provision for impairment losses	<u>(3)</u>	<u>(1)</u>
Net balances	<u><u>126,305</u></u>	<u><u>132,361</u></u>

**14 Financial assets at fair value through profit or loss**

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Debt securities held for trading	(a)	7,743	5,474
Financial assets designated at fair value through profit or loss	(b)	<u>91</u>	<u>163</u>
Total		<u><u>7,834</u></u>	<u><u>5,637</u></u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 14 Financial assets at fair value through profit or loss (continued)

(a) Debt securities held for trading

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Issued by the following governments or institutions:			
In mainland China			
– Government		70	266
– The PBOC		-	40
– Banks and other financial institutions		1,793	1,356
– Other institutions	(i)	5,395	3,722
Sub-total		7,258	5,384
Outside mainland China			
– Government		20	-
– Banks and other financial institutions		68	63
– Other institutions		397	27
Total	(ii)	7,743	5,474
Listed		534	102
– of which listed in Hong Kong		445	49
Unlisted		7,209	5,372
Total		7,743	5,474

*Note:*

(i) Debt securities issued by other institutions in mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(ii) No investments were subject to material restrictions on realisation.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14 Financial assets at fair value through profit or loss (continued)**

(b) Financial assets designated at fair value through profit or loss

	31 December <u>2016</u>	31 December <u>2015</u>
Precious metal	43	50
Fixed interest rate personal mortgage loans	<u>48</u>	<u>113</u>
 Total	 <u><u>91</u></u>	 <u><u>163</u></u>

For fixed interest rate personal mortgage loans, the Group used interest rate swap to manage the associated interest rate risk. The changes in fair value during the year, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

**15 Derivatives**

Derivative financial instruments included forward, swap and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the year, they do not represent exposure at risk.



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15 Derivatives (continued)**

(a) Analysed by nature of contract

	31 December 2016		
	Notional amount	Fair value	
		<u>Assets</u>	<u>Liabilities</u>
Interest rate derivatives			
– Interest rate swap	92,013	413	(356)
– Interest rate futures	500	1	-
Currency derivatives			
– Foreign exchange forward	10,329	140	(160)
– Foreign exchange swap	346,885	4,394	(3,852)
– Foreign exchange option	49	2	-
<b>Total</b>	<b>449,776</b>	<b>4,950</b>	<b>(4,368)</b>
	31 December 2015		
	Notional amount	Fair value	
		<u>Assets</u>	<u>Liabilities</u>
Interest rate derivatives			
– Interest rate swap	63,214	377	(410)
Currency derivatives			
– Foreign exchange forward	11,369	181	(43)
– Foreign exchange swap	144,089	1,067	(937)
– Foreign exchange option	309	-	(1)
<b>Total</b>	<b>218,981</b>	<b>1,625</b>	<b>(1,391)</b>

(b) Analysed by credit risk-weighted amounts

	31 December <u>2016</u>	31 December <u>2015</u>
Counterparty default risk-weighted assets		
– Interest rate derivatives	24	90
– Currency derivatives	871	876
Credit value adjustment	432	524
<b>Total</b>	<b>1,327</b>	<b>1,490</b>

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions, which are calculated with reference to the guidelines issued by the CBRC in 2012.

As at 31 December 2016, the Group did not hold any derivatives used as hedge instruments in accounting treatment.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Financial assets held under resale agreements**

(a) Analysed by type and location of counterparty

	31 December <u>2016</u>	31 December <u>2015</u>
In mainland China		
– Banks	42,646	124,405
– Other financial institutions	<u>24,354</u>	<u>28,640</u>
Total	<u>67,000</u>	<u>153,045</u>
Net balances	<u>67,000</u>	<u>153,045</u>

(b) Analysed by type of security held

	31 December <u>2016</u>	31 December <u>2015</u>
Bonds		
– Government bonds	21,927	11,860
– Other debt securities	<u>45,073</u>	<u>60,590</u>
Sub-total	<u>67,000</u>	<u>72,450</u>
Bank acceptances	-	<u>80,595</u>
Total	<u>67,000</u>	<u>153,045</u>
Net balances	<u>67,000</u>	<u>153,045</u>

**17 Interests receivable**

	31 December <u>2016</u>	31 December <u>2015</u>
Interests receivable from investments	17,654	12,420
Interests receivable from loans and advances to customers	5,251	4,620
Interests receivable from deposits and placements with banks and other financial institutions	1,875	1,263
Other interests receivable	<u>596</u>	<u>280</u>
Total	25,376	18,583
Less: Provision for impairment losses	<u>(37)</u>	<u>(37)</u>
Net balances	<u>25,339</u>	<u>18,546</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18 Loans and advances to customers**

(a) Analysed by nature

	31 December <u>2016</u>	31 December <u>2015</u>
Corporate loans and advances	1,075,974	917,327
Personal loans and advances		
– Personal housing mortgage loans	290,114	180,127
– Personal business loans	132,376	148,706
– Personal consumption loans	28,315	23,375
– Credit cards	<u>212,326</u>	<u>172,812</u>
Sub-total	<u>663,131</u>	<u>525,020</u>
Discounted bills	<u>56,173</u>	<u>71,196</u>
Gross loans and advances to customers	<u>1,795,278</u>	<u>1,513,543</u>
Less: Provision for impairment losses		
– Individually assessed	(11,285)	(10,083)
– Collectively assessed	<u>(32,349)</u>	<u>(28,036)</u>
Total provision for impairment losses	<u>(43,634)</u>	<u>(38,119)</u>
Net loans and advances to customers	<u><u>1,751,644</u></u>	<u><u>1,475,424</u></u>

At financial reporting date, part of the above loans and advances to customers was pledged for repurchase agreements, see Note V 28(a).

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**18 Loans and advances to customers (continued)**

(b) Analysed by economic sector

	31 December 2016		
	<u>Amount</u>	<u>Percentage</u>	<u>Loans and advances secured by collaterals</u>
Manufacturing	235,514	13.12%	69,758
Water, environment and public utility management	160,657	8.95%	78,141
Real estate	126,717	7.06%	91,907
Wholesale and retail trade	112,165	6.25%	43,138
Leasing and commercial services	95,554	5.32%	46,694
Transportation, storage and postal services	92,260	5.14%	37,362
Construction	62,480	3.48%	20,526
Finance	51,275	2.86%	2,784
Others	139,352	7.75%	48,550
Sub-total of corporate loans and advances	1,075,974	59.93%	438,860
Personal loans and advances	663,131	36.94%	426,392
Discounted bills	56,173	3.13%	47,270
Gross loans and advances to customers	1,795,278	100.00%	912,522
Less: Provision for impairment losses			
– Individually assessed	(11,285)		
– Collectively assessed	(32,349)		
Total provision for impairment losses	(43,634)		
Net loans and advances to customers	1,751,644		

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18 Loans and advances to customers (continued)**

(b) Analysed by economic sector (continued)

	31 December 2015		
	<u>Amount</u>	<u>Percentage</u>	<u>Loans and advances secured by collaterals</u>
Manufacturing	246,140	16.26%	64,126
Real estate	143,428	9.48%	115,126
Wholesale and retail trade	123,907	8.19%	49,311
Transportation, storage and postal services	75,108	4.96%	30,576
Water, environment and public utility management	70,864	4.68%	35,952
Leasing and commercial services	54,119	3.58%	27,982
Construction	50,084	3.31%	14,551
Finance	28,592	1.89%	1,462
Others	125,085	8.27%	40,971
Sub-total of corporate loans and advances	917,327	60.62%	380,057
Personal loans and advances	525,020	34.68%	323,307
Discounted bills	71,196	4.70%	61,326
Gross loans and advances to customers	1,513,543	100.00%	764,690
Less: Provision for impairment losses			
– Individually assessed	(10,083)		
– Collectively assessed	(28,036)		
Total provision for impairment losses	(38,119)		
Net loans and advances to customers	1,475,424		

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 18 Loans and advances to customers (continued)

#### (b) Analysed by economic sector (continued)

As at the end of the year and during the period, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitute 10% or more of gross loans and advances to customers are as follows:

	31 December 2016				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	10,310	(5,509)	(7,303)	8,900	1,270

	31 December 2015				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	7,253	(3,516)	(6,806)	6,526	988

#### (c) Analysed by type of collateral

	31 December 2016	31 December 2015
Unsecured loans	491,329	434,735
Guaranteed loans	391,427	314,118
Secured loans		
– By tangible assets other than monetary assets	695,272	585,530
– By monetary assets	217,250	179,160
Gross loans and advances to customers	1,795,278	1,513,543
Less: Provision for impairment losses		
– Individually assessed	(11,285)	(10,083)
– Collectively assessed	(32,349)	(28,036)
Total provision for impairment losses	(43,634)	(38,119)
Net loans and advances to customers	1,751,644	1,475,424

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18 Loans and advances to customers (continued)**

(d) Overdue loans analysed by overdue period

	31 December 2016				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	4,987	3,684	1,086	39	9,796
Guaranteed loans	4,469	7,051	5,122	522	17,164
Secured loans					
– By tangible assets other than monetary assets	6,141	6,194	6,596	370	19,301
– By monetary assets	228	3,951	1,079	21	5,279
<b>Total</b>	<b>15,825</b>	<b>20,880</b>	<b>13,883</b>	<b>952</b>	<b>51,540</b>
As a percentage of gross loans and advances to customers	<u>0.88%</u>	<u>1.17%</u>	<u>0.77%</u>	<u>0.05%</u>	<u>2.87%</u>

	31 December 2015				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	5,991	3,187	661	60	9,899
Guaranteed loans	8,851	9,197	5,046	70	23,164
Secured loans					
– By tangible assets other than monetary assets	10,228	9,886	5,034	292	25,440
– By monetary assets	1,591	1,169	555	15	3,330
<b>Total</b>	<b>26,661</b>	<b>23,439</b>	<b>11,296</b>	<b>437</b>	<b>61,833</b>
As a percentage of gross loans and advances to customers	<u>1.76%</u>	<u>1.55%</u>	<u>0.75%</u>	<u>0.03%</u>	<u>4.09%</u>

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

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**18 Loans and advances to customers (continued)**

(e) Loans and advances and provision for impairment losses

	31 December 2016				Gross impaired loans and advances as a percentage of gross loans and advances
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances for which provision are collectively assessed		for which provision are individually assessed	
Gross loans and advances to customers	1,766,576	7,290	21,412	1,795,278	1.60%
Less: Provision for impairment losses	<u>(28,591)</u>	<u>(3,758)</u>	<u>(11,285)</u>	<u>(43,634)</u>	
Net loans and advances to customers	<u>1,737,985</u>	<u>3,532</u>	<u>10,127</u>	<u>1,751,644</u>	
	31 December 2015				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances for which provision are collectively assessed		for which provision are individually assessed	Total
Gross loans and advances to customers	1,489,168	5,148	19,227	1,513,543	1.61%
Less: Provision for impairment losses	<u>(25,667)</u>	<u>(2,369)</u>	<u>(10,083)</u>	<u>(38,119)</u>	
Net loans and advances to customers	<u>1,463,501</u>	<u>2,779</u>	<u>9,144</u>	<u>1,475,424</u>	

*Note:*

- (i) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.
- (ii) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:
- Individually (including corporate loans and advances which are impaired); or
  - Collectively (including personal loans and advances which are impaired).



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18 Loans and advances to customers (continued)**

(f) Movements of provision for impairment losses

	31 December 2016			Total
	Provision for loans and advances which are collectively <u>assessed</u>	Provision for impaired loans and advances		
		which are collectively <u>assessed</u>	which are individually <u>assessed</u>	
As at 1 January	(25,667)	(2,369)	(10,083)	(38,119)
Charge for the year	(2,924)	(3,903)	(15,971)	(22,798)
Release for the year	-	-	687	687
Recoveries	-	(489)	(258)	(747)
Unwinding of discount	-	-	876	876
Disposal	-	-	10,835	10,835
Write-offs	-	3,003	2,629	5,632
As at 31 December	<u>(28,591)</u>	<u>(3,758)</u>	<u>(11,285)</u>	<u>(43,634)</u>
	31 December 2015			
	Provision for loans and advances which are collectively <u>assessed</u>	Provision for impaired loans and advances		
		which are collectively <u>assessed</u>	which are individually <u>assessed</u>	Total
As at 1 January	(20,968)	(2,111)	(4,946)	(28,025)
Charge for the year	(4,699)	(3,121)	(12,251)	(20,071)
Release for the year	-	-	347	347
Recoveries	-	(228)	(106)	(334)
Unwinding of discount	-	-	802	802
Disposal	-	-	3,583	3,583
Write-offs	-	3,091	2,488	5,579
As at 31 December	<u>(25,667)</u>	<u>(2,369)</u>	<u>(10,083)</u>	<u>(38,119)</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18 Loans and advances to customers (continued)**

(g) Analysed by geographical sector

	31 December 2016		
	<u>Loan balance</u>	<u>Percentage</u>	<u>Loans and advances secured by collaterals</u>
Yangtze River Delta	352,631	19.64%	183,215
Central	303,996	16.93%	178,952
Bohai Rim	298,715	16.64%	147,435
Western	260,592	14.52%	163,907
Pearl River Delta	213,533	11.89%	157,849
Northeastern	109,300	6.09%	71,241
Overseas	44,175	2.46%	9,923
Head Office	212,336	11.83%	-
Gross loans and advances to customers	<u>1,795,278</u>	<u>100.00%</u>	<u>912,522</u>
	31 December 2015		
	<u>Loan balance</u>	<u>Percentage</u>	<u>Loans and advances secured by collaterals</u>
Yangtze River Delta	301,904	19.95%	169,533
Bohai Rim	265,918	17.57%	129,959
Central	230,898	15.25%	129,482
Western	229,682	15.18%	142,753
Pearl River Delta	191,858	12.68%	127,514
Northeastern	96,047	6.35%	58,777
Overseas	24,414	1.60%	6,672
Head Office	172,822	11.42%	-
Gross loans and advances to customers	<u>1,513,543</u>	<u>100.00%</u>	<u>764,690</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18 Loans and advances to customers (continued)**

(g) Analysed by geographical sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers are as follows:

	31 December 2016		
	Impaired loans and <u>advances</u>	Individually assessed provision for impairment <u>losses</u>	Collectively assessed provision for impairment <u>losses</u>
Yangtze River Delta	6,520	(3,299)	(6,184)
Pearl River Delta	4,663	(2,036)	(4,987)
Central	4,654	(1,901)	(4,561)
Western	4,599	(1,901)	(5,072)
Bohai Rim	3,666	(1,699)	(6,024)
	31 December 2015		
	Impaired loans and <u>advances</u>	Individually assessed provision for impairment <u>losses</u>	Collectively assessed provision for impairment <u>losses</u>
Yangtze River Delta	5,974	(2,947)	(6,247)
Pearl River Delta	4,357	(1,872)	(4,186)
Central	4,022	(1,656)	(3,891)
Western	4,914	(2,445)	(4,531)
Bohai Rim	2,104	(913)	(5,043)

The definitions of the regional distributions are set out in Note V 50(b).

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18 Loans and advances to customers (continued)**

(h) Rescheduled loans and advances to customers

	31 December <u>2016</u>	31 December <u>2015</u>
Rescheduled loans and advances to customers	17,380	12,034
Of which: Rescheduled loans and advances to customers overdue more than 90 days	1,240	4,202

**19 Finance lease receivables**

	31 December <u>2016</u>	31 December <u>2015</u>
Minimum finance lease receivables	64,244	44,732
Less: unearned finance lease income	<u>(7,175)</u>	<u>(5,060)</u>
Present value of minimum lease receivable	<u>57,069</u>	<u>39,672</u>
Less: impairment losses		
- Individually assessed	(403)	(205)
- Collectively assessed	<u>(1,106)</u>	<u>(732)</u>
Net balance	<u>55,560</u>	<u>38,735</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**19 Finance lease receivables (continued)**

Minimum finance lease receivables analysed by remaining period is listed as follows:

Finance lease receivables:

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Less than 1 year (inclusive)		18,053	12,419
1 year to 2 years (inclusive)		12,616	9,557
2 year to 3 years (inclusive)		10,462	6,911
More than 3 years		<u>23,113</u>	<u>15,845</u>
Total		<u><u>64,244</u></u>	<u><u>44,732</u></u>

**20 Available-for-sale financial assets**

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Available-for-sale debt investments	(a)	237,788	193,650
Available-for-sale equity investments	(b)	549	645
Available-for-sale fund investments and others	(c)	<u>186,794</u>	<u>28,200</u>
Total		<u><u>425,131</u></u>	<u><u>222,495</u></u>
Listed		37,391	47,180
- of which in Hong Kong		7,331	3,284
Unlisted		<u>387,740</u>	<u>175,315</u>
Total		<u><u>425,131</u></u>	<u><u>222,495</u></u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 20 Available-for-sale financial assets (continued)

#### (a) Available-for-sale debt investments

All available-for-sale debt investments were stated at fair value and issued by the following governments and institutions:

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
In mainland China			
– Government		75,981	43,908
– Banks and other financial institutions	(i)	51,688	45,110
– Other institutions	(ii)	<u>101,600</u>	<u>100,257</u>
Sub-total		<u>229,269</u>	<u>189,275</u>
Outside mainland China			
– Government		88	-
– Banks and other financial institutions		2,458	2,221
– Other institutions		<u>5,973</u>	<u>2,154</u>
Sub-total		<u>8,519</u>	<u>4,375</u>
Total	(iii)	<u><u>237,788</u></u>	<u><u>193,650</u></u>

*Note:*

- (i) Debt securities issued by banks and other financial institutions mainly represent debt securities and interbank deposits issued by banks and other financial institutions in the mainland China.
- (ii) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.
- (iii) As at the end of the year, part of the available-for-sale financial assets were pledged for repurchase agreements (see Note V 28(a)).
- (iv) As at the end of the year, the allowance for impairment losses of available-for-sale debt investment was RMB745 million (as at 31 December 2015: RMB171million).

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20 Available-for-sale financial assets (continued)**

(b) Available-for-sale equity investments

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
At cost			
As at 1 January		401	305
Additions for the year		-	132
Reductions for the year		-	(36)
As at the end of the year		401	401
Less: Provision for impairment losses		(1)	(1)
Sub-total	(i)	400	400
At fair value		149	245
Total		<u>549</u>	<u>645</u>

*Note:*

- (i) Available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses.

(c) Available-for-sale fund investments and others

	31 December <u>2016</u>	31 December <u>2015</u>
Measured as fair value		
In mainland China - Banks and other financial institutions	186,794	28,200
Total	<u>186,794</u>	<u>28,200</u>

(d) Movements of allowance for impairment losses of available-for-sale financial assets during the year are as follows:

	<u>Availabe-for-sale debt investments</u>	<u>Availabe-for-sale equity investments</u>	<u>Total</u>
At 1 January 2015	-	1	1
Charge for the year	171	-	171
At 31 December 2015 and 1 January 2016	171	1	172
Charge for the year	574	-	574
At 31 December 2016	<u>745</u>	<u>1</u>	<u>746</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**21 Held-to-maturity investments**

Debt securities analysed by type and location :

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
In mainland China			
– Government		187,965	116,017
– Banks and other financial institutions		56,567	16,577
– Other institutions	(a)	<u>8,576</u>	<u>17,979</u>
Sub-total		<u>253,108</u>	<u>150,573</u>
Outside mainland China			
– Government		410	330
– Banks and other financial institutions		1,353	1,113
– Other institutions		<u>2,741</u>	<u>306</u>
Sub-total		<u>4,504</u>	<u>1,749</u>
Total	(b)	<u>257,612</u>	<u>152,322</u>
Less: Provision for impairment losses		<u>(112)</u>	<u>(10)</u>
Net balances		<u>257,500</u>	<u>152,312</u>
Listed		4,439	1,289
- of which in Hong Kong		2,722	894
Unlisted		<u>253,061</u>	<u>151,023</u>
Net balances		<u>257,500</u>	<u>152,312</u>
Fair value		<u>258,891</u>	<u>156,516</u>

Note:

- (a) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.
- (b) As at the end of the year, part of the held-to-maturity investments were pledged as securities for repurchase agreements and time deposits transactions (see Note V 28(a)).
- (c) The Group did not dispose of any held-to-maturity debt investments in 2016. The Group disposed of the held-to-maturity debt investments with a notional amount of RMB540 million prior to their maturity dates for the year ended 31 December 2015, which account for 0.48% of the portfolio before the disposal.



**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**22 Debt securities classified as receivables**

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Wealth management products issued by financial institution	(a)	150,460	136,434
Beneficiary interests in trust and other plans	(b)	476,623	388,394
Others		<u>2,326</u>	<u>-</u>
Total		<u>629,409</u>	<u>524,828</u>
Less: Provision for impairment losses		<u>(1,731)</u>	<u>(1,401)</u>
Net balances		<u><u>627,678</u></u>	<u><u>523,427</u></u>

*Note:*

- (a) Wealth management products issued by financial institutions are fixed-term and principle guaranteed products.
- (b) Beneficiary interests in trust and other plans are mainly beneficial interests issued by trust companies, securities companies, insurance companies and asset management companies. As at 31 December 2016, part of investments in the plans for transfer of beneficial interests held by the Group were under forward sale contracts with other financial institutions in mainland China, the notional amount of which was RMB636 million (31 December 2015: RMB14,220 million). The fair values of the above mentioned investments approximate to their carrying amount.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 23 Investments in subsidiaries

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Everbright Financial Leasing Co., Ltd.	(a)	2,700	2,700
CEB International Investment Co., Ltd.	(b)	494	494
Shaoshan Everbright Village Bank Co., Ltd.	(c)	105	105
Jiangsu Huai'an Everbright Village Bank Co., Ltd.	(d)	70	70
Total		<u>3,369</u>	<u>3,369</u>

*Note:*

- (a) Everbright Financial Leasing Co., Ltd. ("Everbright Financial Leasing") was incorporated on 19 May 2010 in Wuhan city of Hubei Province, with registered capital of RMB3,700 million. The principal activity of Everbright Financial Leasing is the provision of leasing services. The Bank holds 90% of equity interests and voting rights of Everbright Financial Leasing.
- (b) CEB International Investment Co., Ltd. ("CEBI") was incorporated on 9 November 2015 in Hong Kong, with registered capital of HKD600 million, which equals to RMB494 million approximately, according to the spot exchange rate 0.823655, on the day of transferring the registration capital. The principal activity of CEBI is the provision of investment banking business activities. The Bank holds 100% of equity interests and voting rights of CEBI.
- (c) Shaoshan Everbright Village Bank Co., Ltd. ("Shaoshan Everbright") was incorporated on 24 September 2009 in Shaoshan city of Hunan Province, with registered capital of RMB150 million. The principal activities of Shaoshan Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Shaoshan Everbright.
- (d) Jiangsu Huai'an Everbright Village Bank Co., Ltd. ("Huai'an Everbright") was incorporated on 1 February 2013 in Huai'an city of Jiangsu Province, with registered capital of RMB100 million. The principal activities of Huai'an Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Huai'an Everbright.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**24 Fixed Assets**

	<u>Premises</u>	<u>Aircraft</u> (Note(i))	<u>Construction</u> <u>in progress</u>	<u>Electronic</u> <u>equipment</u>	<u>Others</u>	<u>Total</u>
<b>Cost</b>						
As at 1 January 2016	11,117	-	900	5,325	3,420	20,762
Additions	53	2,266	52	536	164	3,071
Transfers out	-	-	(3)	-	-	(3)
Disposals	-	-	-	(130)	(48)	(178)
As at 31 December 2016	<u>11,170</u>	<u>2,266</u>	<u>949</u>	<u>5,731</u>	<u>3,536</u>	<u>23,652</u>
<b>Accumulated depreciation</b>						
As at 1 January 2016	(2,630)	-	-	(3,376)	(1,951)	(7,957)
Charge for the year	(365)	(50)	-	(692)	(354)	(1,461)
Disposals	-	-	-	119	34	153
As at 31 December 2016	<u>(2,995)</u>	<u>(50)</u>	<u>-</u>	<u>(3,949)</u>	<u>(2,271)</u>	<u>(9,265)</u>
<b>Provision for impairment</b>						
As at 1 January 2016	(159)	-	-	-	-	(159)
As at 31 December 2016	<u>(159)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(159)</u>
<b>Net book value</b>						
As at 31 December 2016	<u>8,016</u>	<u>2,216</u>	<u>949</u>	<u>1,782</u>	<u>1,265</u>	<u>14,228</u>

*Note:*

- (i) As at 31 December 2016, Everbright Financial Leasing Co., Ltd., the group's subsidiary leases certain aircrafts and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB2,216 million.(2015: null)

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**24 Fixed Assets (continued)**

	<u>Premises</u>	<u>Construction in progress</u>	<u>Electronic equipment</u>	<u>Others</u>	<u>Total</u>
<b>Cost</b>					
As at 1 January 2015	10,992	673	4,906	3,367	19,938
Additions	131	234	627	86	1,078
Transfers in/(out)	-	(7)	(3)	3	(7)
Disposals	(6)	-	(205)	(36)	(247)
As at 31 December 2015	<u>11,117</u>	<u>900</u>	<u>5,325</u>	<u>3,420</u>	<u>20,762</u>
<b>Accumulated depreciation</b>					
As at 1 January 2015	(2,273)	-	(2,899)	(1,564)	(6,736)
Charge for the year	(357)	-	(678)	(407)	(1,442)
Transfers out/(in)	-	-	2	(2)	-
Disposals	-	-	199	22	221
As at 31 December 2015	<u>(2,630)</u>	<u>-</u>	<u>(3,376)</u>	<u>(1,951)</u>	<u>(7,957)</u>
<b>Provision for impairment</b>					
As at 1 January 2015	(159)	-	-	-	(159)
As at 31 December 2015	<u>(159)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(159)</u>
<b>Net book value</b>					
As at 31 December 2015	<u>8,328</u>	<u>900</u>	<u>1,949</u>	<u>1,469</u>	<u>12,646</u>

As at 31 December 2016, title deeds were not yet finalised for the premises with a carrying amount of RMB156 million (31 December 2015: RMB176 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.

The net book values of premises at the end of the year are analysed by the remaining terms of the leases as follows:

	31 December <u>2016</u>	31 December <u>2015</u>
<b>Held in mainland China</b>		
- Medium term leases (10 - 50 years)	7,967	8,315
- Short term leases (less than 10 years)	49	13
<b>Total</b>	<u>8,016</u>	<u>8,328</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 25 Goodwill

	31 December <u>2016</u>	31 December <u>2015</u>
Gross amount	6,019	6,019
Less: Provision for impairment losses	<u>(4,738)</u>	<u>(4,738)</u>
Net balances	<u>1,281</u>	<u>1,281</u>

As approved by the PBOC, the Bank and China Development Bank (“CDB”) jointly signed an “Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank” (the “Agreement”) on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank (“CIB”) to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

### 26 Deferred tax assets and liabilities

(a) Analysed by nature

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	Temporary <u>Difference</u>	Deferred Tax assets <u>/(liabilities)</u>	Temporary <u>Difference</u>	Deferred Tax assets <u>/(liabilities)</u>
Deferred income tax assets	22,489	5,622	15,694	3,923
Deferred income tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net balances	<u>22,489</u>	<u>5,622</u>	<u>15,694</u>	<u>3,923</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**26 Deferred tax assets and liabilities (continued)**

(b) Movements of deferred tax

	Provision for impairment <u>losses</u> Note(i)	Accrued <u>staff costs</u>	Net losses/ (gains) from fair value changes of financial <u>instruments</u> Note(ii)	Net balance of deferred <u>tax assets</u>
1 January 2016	3,288	2,043	(1,408)	3,923
Recognised in profit or loss	1,224	(609)	(59)	556
Recognised in other comprehensive income	-	-	1,143	1,143
31 December 2016	<u>4,512</u>	<u>1,434</u>	<u>(324)</u>	<u>5,622</u>
1 January 2015	1,484	1,694	(144)	3,034
Recognised in profit or loss	1,804	349	(10)	2,143
Recognised in other comprehensive income	-	-	(1,254)	(1,254)
31 December 2015	<u>3,288</u>	<u>2,043</u>	<u>(1,408)</u>	<u>3,923</u>

*Note:*

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses were determined based on the expected recoverable amount of the relevant assets at the end of the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net losses/(gains) on fair value changes of financial instruments are subject to tax when realised.
- (iii) Unrecognised deferred tax assets

As at 31 December 2016, the Group has not recognised deferred tax assets of RMB5,157 million (31 December 2015: RMB3,673 million) for provision of impairment losses amounting to RMB20,629 million (31 December 2015: RMB14,691 million). This was mainly because it was uncertain whether the losses from write-offs of the impaired assets could be approved by the relevant tax authorities in the foreseeable future.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**27 Other assets**

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Precious metal		22,677	4,779
Other receivables	(a)	6,162	4,666
Long-term deferred expense		1,337	1,450
Fixed assets purchase prepayment		1,187	995
Intangible assets		844	834
Repossessed assets		389	329
Land use rights		106	112
Others		<u>3,018</u>	<u>42</u>
Total		<u><u>35,720</u></u>	<u><u>13,207</u></u>

*Note:*

- (a) Other receivables and prepayments mainly include items in the process of clearing and settlement.

**28 Pledged assets**

- (a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities include discounted bills and debt securities. They are mainly pledged for repurchase agreements and time deposits. The carrying amount of the financial assets pledged as securities as at 31 December 2016 is RMB72,500 million (31 December 2015: RMB70,574 million).

- (b) Collaterals received

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at the end of the year, the Group did not hold any resale agreement that collaterals were permitted to be sold or repledged in the absence of the counterparty's default on the agreements.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**29 Deposits from banks and other financial institutions**

Analysed by type and location of counterparty

	31 December <u>2016</u>	31 December <u>2015</u>
Deposits in mainland China		
– Banks	344,988	234,625
– Other financial institutions	<u>484,186</u>	<u>305,547</u>
Sub-total	<u>829,174</u>	<u>540,172</u>
Deposits outside mainland China		
– Banks	<u>1,180</u>	<u>894</u>
Sub-total	<u>1,180</u>	<u>894</u>
Total	<u><u>830,354</u></u>	<u><u>541,066</u></u>

**30 Placements from banks and other financial institutions**

Analysed by type and location of counterparty

	31 December <u>2016</u>	31 December <u>2015</u>
Placements in mainland China		
– Banks	61,386	41,263
– Other financial institutions	<u>4</u>	<u>500</u>
Sub-total	<u>61,390</u>	<u>41,763</u>
Placements outside mainland China		
– Banks	<u>34,111</u>	<u>18,542</u>
Sub-total	<u>34,111</u>	<u>18,542</u>
Total	<u><u>95,501</u></u>	<u><u>60,305</u></u>



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**31 Financial assets sold under repurchase agreements**

(a) Analysed by type and location of counterparty

	31 December <u>2016</u>	31 December <u>2015</u>
In mainland China		
– Banks	41,195	55,550
– Other financial institutions	-	3,323
Total	<u>41,195</u>	<u>58,873</u>

(b) Analysed by collateral

	31 December <u>2016</u>	31 December <u>2015</u>
Bank acceptances	7,610	19,770
Debt securities	<u>33,585</u>	<u>39,103</u>
Total	<u>41,195</u>	<u>58,873</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**32 Deposits from customers**

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
<b>At amortised cost</b>			
Demand deposits			
– Corporate customers		628,167	480,487
– Individual customers		<u>183,856</u>	<u>145,026</u>
Sub-total		<u>812,023</u>	<u>625,513</u>
Time deposits			
– Corporate customers		639,629	677,167
– Individual customers		<u>115,941</u>	<u>121,019</u>
Sub-total		<u>755,570</u>	<u>798,186</u>
Pledged deposits			
– Acceptances		173,385	190,874
– Letters of credit		9,980	14,327
– Letters of guarantees		20,763	8,299
– Others		<u>14,249</u>	<u>7,365</u>
Sub-total		<u>218,377</u>	<u>220,865</u>
Other deposits		<u>108,027</u>	<u>110,665</u>
Total deposits from customers at amortised cost		<u>1,893,997</u>	<u>1,755,229</u>
<b>At fair value</b>			
Structured deposits	(i)		
– Corporate customers		167,967	166,646
– Individual customers		<u>58,923</u>	<u>71,968</u>
Total deposits from customers at fair value		<u>226,890</u>	<u>238,614</u>
Total		<u>2,120,887</u>	<u>1,993,843</u>

*Note:*

- (i) Due to customers measured at fair value are structured deposits designated as at fair value through profit or loss at inception. There were no significant changes in the Group's credit risk and therefore there were no significant gains or losses attributable to changes in the Group's credit risk for the above-mentioned structured deposits during the years ended 31 December 2016 and 2015.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**33 Accrued staff costs**

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Salary and welfare payable		6,992	10,721
Pension payable	(a)	126	97
Supplementary retirement benefits payable	(b)	<u>658</u>	<u>399</u>
Total		<u><u>7,776</u></u>	<u><u>11,217</u></u>

*Note:*

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the year. The Group's obligations in respect of the SRB were assessed using projected unit credit method by qualified staff ( a member of society of Actuaries in America) of an external independent actuary: Towers Watson Management Consulting (Shenzhen) Co., Ltd.

(i) The balances of SRB of the Group are as follows:

	31 December <u>2016</u>	31 December <u>2015</u>
Present value of SRB obligation	<u><u>658</u></u>	<u><u>399</u></u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 33 Accrued staff costs (continued)

(b) Supplementary retirement benefits (“SRB”) (continued)

(ii) Movements of SRB of the Group are as follows:

	<u>2016</u>	<u>2015</u>
As at 1 January	399	314
Current service cost	236	25
Interest cost	15	13
Remeasurement of defined benefit plan	23	64
Payments made	<u>(15)</u>	<u>(17)</u>
As at 31 December	<u><u>658</u></u>	<u><u>399</u></u>

Remeasurement of defined benefit plan was recognised in other comprehensive income, see Note V 41.

(iii) Principal actuarial assumptions of the Group are as follow:

	31 December <u>2016</u>	31 December <u>2015</u>
Discount rate	3.75%	3.90%
Medical cost trend rate	5.88%	6.00%
Average expected future lifetime	22.80	23.20

(iv) Sensitivity analysis:

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumption constant, would have affected the defined benefit obligation by the amounts shown below.

	<u>31 December 2016</u>	
	<u>Increase</u>	<u>Decrease</u>
Discount rate (1% movement)	(163)	178
Medical cost trend rate (1% movement)	187	(133)
	<u>31 December 2015</u>	
	<u>Increase</u>	<u>Decrease</u>
Discount rate (1% movement)	(80)	114
Medical cost trend rate (1% movement)	99	(70)

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown.

Except as mentioned in Note (a) and Note (b) above, the Group has no significant responsibilities to pay any other retirement benefits to retired employees.

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**34 Taxes payable**

	31 December <u>2016</u>	31 December <u>2015</u>
Income tax payable	2,741	4,527
Value added tax payable	1,416	41
Business tax and surcharges payable	4	1,702
Others	340	122
Total	<u>4,501</u>	<u>6,392</u>

**35 Interests payable**

	31 December <u>2016</u>	31 December <u>2015</u>
Deposits from customers	26,890	25,854
Debt securities issued	1,731	1,722
Others	4,955	3,036
Total	<u>33,576</u>	<u>30,612</u>

**36 Debt securities issued**

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	32,800	32,800
Tier-two capital bonds	(c)	16,200	16,200
Interbank deposits issued	(d)	347,067	146,531
Certificates of deposits issued	(e)	6,282	7,830
Medium term notes	(f)	3,451	-
Total		<u>412,500</u>	<u>210,061</u>

(a) Subordinated debts

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		<u>6,700</u>	<u>6,700</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 36 Debt securities issued (continued)

#### (a) Subordinated debts (continued)

*Note:*

- (i) Fixed rate subordinated debts of RMB6.7 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.
- (ii) As at 31 December 2016, the fair value of the total subordinated debt securities issued approximates to RMB6,957 million (31 December 2015: RMB7,142 million).

#### (b) Financial bonds

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Financial fixed rate bonds maturing in March 2017	(i)	20,000	20,000
Financial floating rate bonds maturing in March 2017	(ii)	10,000	10,000
Financial fixed rate bonds maturing in June 2018	(iii)	2,800	2,800
Total		<u>32,800</u>	<u>32,800</u>

*Note:*

- (i) Fixed rate financial bonds of RMB20 billion with a term of five years were issued on 28 March 2012. The coupon rate is 4.20% per annum.
  - (ii) Floating rate financial bonds of RMB10 billion with a term of five years were issued on 28 March 2012. The bonds bear interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 0.95%.
  - (iii) Fixed rate financial bonds of RMB3.50 billion with a term of three years were issued by Everbright Financial Leasing Co., Ltd on 16 June 2015. The coupon rate is 4.00% per annum. As at 31 December 2016, the Bank held RMB0.7 billion of these bonds.
  - (iv) As at 31 December 2016, the fair value of the total financial bond securities issued approximates to RMB32,736 million (31 December 2015: RMB32,958 million).
- #### (c) Tier-two capital bonds
- (i) Fixed rate tier-two capital bonds of RMB16.2 billion with a term of ten years were issued on 9 June 2014. The coupon rate is 6.20% per annum. The Group has an option to redeem the debts on 10 June 2019 at the nominal amount.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**36 Debt securities issued (continued)**

(c) Tier-two capital bonds (continued)

- (ii) As at 31 December 2016, the fair value of the total tier-two capital bonds approximates to RMB16,881 million (31 December 2015: RMB17,436 million).

(d) Interbank deposits issued

As at 31 December 2016, the interbank deposits were measured at amortised cost. The fair value of the interbank deposits issued mentioned above approximates to RMB342,860 million (31 December 2015: RMB146,688 million).

(e) Certificates of deposits issued

As at 31 December 2016, the certificates of deposits were issued by the Bank's Hong Kong branch and measured at amortised cost. The fair value of the certificates of deposits issued approximates to their carrying amount.

(f) Medium term notes

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Medium term notes with fixed rate maturing in 15 September 2019	(i)	<u>3,451</u>	<u>-</u>
Total		<u>3,451</u>	<u>-</u>

*Note:*

- (i) Fixed rate medium term notes of USD500 million (i.e. RMB3,473 million) with a term of three years were issued by The Bank's Hong Kong branch on 8 September 2016. The coupon rate is 2.00% per annum.
- (ii) As at 31 December 2016, the fair value of the medium term notes approximates to RMB3,440 million.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**37 Other liabilities**

	<u>Note</u>	31 December <u>2016</u>	31 December <u>2015</u>
Deferred emoluments payment	(a)	4,440	-
Payment and collection clearance			
Accounts		4,165	1,743
Finance leases payable		3,618	3,366
Deferred income	(b)	2,903	2,083
Bank Loans	(c)	2,387	-
Provisions	(d)	415	446
Dormant accounts		319	295
Dividend payables		20	28
Others		13,049	7,102
Total		<u>31,316</u>	<u>15,063</u>

*Note:*

- (a) This represents deferred emoluments payable to employees in respect of services provided to the Group. Such amount will be distributed according to plans. As at 31 December 2016, the deferred emolument payable amounted to RMB4,440 million.
- (b) Deferred income primarily comprised the credit card income to be distributed.
- (c) As at 16 December 2016, Everbright Financial Leasing Co., Ltd., the group's subsidiary borrowed long-term loans with a terms for 5 years. Everbright Financial Leasing should repay capital with interest quarterly at a floating rate based on the Libor plus a margin of 150BP. As at 31 December 2016, the amount of the long-term bank loan is RMB516 million. CEB International Investment Co., Ltd., the group's subsidiary borrowed short-term loans. As at 31 December 2016, the amount of the short-term bank loan is RMB1,871 million at rates between 0.80% to 2.32%, and the remaining terms are from 6 days to 39 days.
- (d) As at 31 December 2016, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB17 million (31 December 2015: RMB17 million).



**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**38 Share capital**

The Bank's shareholding structure as at the end of the year is as follows:

	31 December <u>2016</u>	31 December <u>2015</u>
Ordinary shares listed in mainland China (A share)	39,810	39,810
Ordinary shares listed in Hong Kong (H share)	<u>6,869</u>	<u>6,869</u>
Total	<u>46,679</u>	<u>46,679</u>

The H shares rank pari passu in all respects with the A shares including the right to receive dividends and distributions declared.

**39 Other equity instrument**

(a) Preference shares at the end of the year

<u>Issue date</u>	<u>Dividend rate</u>	<u>Issue price</u>	<u>Number of shares issued million</u>	<u>RMB million</u>	<u>Conversion condition</u>
<b>Everbright P1</b>					
2015-6-19	5.30%	100 RMB/ share	200	20,000	Mandatory conversion trigger events
<b>Everbright P2</b>					
2016-8-8	3.90%	100 RMB/ share	100	<u>10,000</u>	Mandatory conversion trigger events
Sub-Total				<u>30,000</u>	
Less: Issuing costs				<u>(53)</u>	
Book value				<u>29,947</u>	

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 39 Other equity instrument (continued)

#### (b) Main Clauses

##### (i) Dividend

Fixed rate for the first 5 years after issuance.

Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

##### (ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

##### (iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend period to the preference shareholders in full.

##### (iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt and holders of Tier-two capital bonds, but will be senior to the ordinary shareholders

##### (v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier-one Capital Trigger Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the Preference Shares into A shares, in order to restore the Common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; If Preference Shares were converted to A shares, it could not be converted to Preference Shares again.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 39 Other equity instrument (continued)

#### (b) Main Clauses (continued)

##### (v) Mandatory conversion trigger events (continued)

Upon the occurrence of a Non-Viability Trigger Event (Earlier of the two situations: (1) CBRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; or (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all Preference Shares into A shares.

##### (vi) Redemption

Subject to the prior approval of the CBRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the Preference Shares on any redeemable day (the payment date for dividends of the Preference Shares each year) after the fifth year following the completion date of the Issuance of the Preference Shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the Preference Shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the Preference Shares. Where redemption is in part, the Preference Shares shall be redeemed based on the same proportion and conditions. Preference Shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant period.

#### (c) Changes in Preference shares outstanding

	1 January 2016		Additions for the year		31 December 2016	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	200	19,965	100	9,982	300	29,947

	1 January 2015		Additions for the year		31 December 2015	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	-	-	200	19,965	200	19,965

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**39 Other equity instrument (continued)**

(d) Interests attributable to equity instruments' holders

<u>Items</u>	31 December <u>2016</u>	31 December <u>2015</u>
1.Total equity attributable to equity shareholders of the Bank	250,455	223,493
(1) Equity attributable to ordinary equity holders of the Bank	220,508	203,528
(2) Equity attributable to preference shares holders of the Bank	29,947	19,965
2.Total equity attributable to non-controlling interests	613	554
(1) Equity attributable to non-controlling interests of ordinary shares	613	554
(2) Equity attributable to non-controlling interests of preference shares	-	-

**40 Capital reserve**

	31 December <u>2016</u>	31 December <u>2015</u>
Share premium	<u>33,365</u>	<u>33,365</u>
Total	<u><u>33,365</u></u>	<u><u>33,365</u></u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**41 Other comprehensive income**

	31 December <u>2016</u>	31 December <u>2015</u>
<b>Items that may be reclassified subsequently to profit or loss</b>		
Fair value changes on available-for-sale financial assets	552	3,982
Exchange differences on translation of financial statements of overseas subsidiaries	<u>41</u>	<u>8</u>
<b>Items that will not be reclassified to profit or loss</b>		
Remeasurement of defined benefit plan	<u>(84)</u>	<u>(61)</u>
<b>Total</b>	<b><u>509</u></b>	<b><u>3,929</u></b>

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value gains on available for sale financial assets	Exchange differences on translation of foreign operations	Remeasur ement of defined benefit plan	Total
As at 1 January 2015	219	-	3	222
Changes in amount for the previous year	<u>3,763</u>	<u>8</u>	<u>(64)</u>	<u>3,707</u>
As at 1 January 2016	3,982	8	(61)	3,929
Changes in amount for the year	<u>(3,430)</u>	<u>33</u>	<u>(23)</u>	<u>(3,420)</u>
As at 31 December 2016	<u><u>552</u></u>	<u><u>41</u></u>	<u><u>(84)</u></u>	<u><u>509</u></u>

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **42 Surplus reserve and general reserve**

#### **(a) Surplus reserve**

The surplus reserve at the end of the year represented statutory surplus reserve fund. The Bank is required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

#### **(b) General reserve**

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

### **43 Appropriation of profits**

#### **(a) At the Meeting of Board of Directors on 30 March 2017, the board of directors approved the following profit appropriations for the year ended 31 December 2016:**

- Appropriated RMB2,987 million (10% of the net profit of the bank) to surplus reserve;
- Appropriated RMB10,362 million to general reserve; and
- Declared cash dividends to all shareholders of RMB4,575 million representing RMB0.98 per 10 shares before tax.

#### **(b) At the Annual General Meeting of shareholders held on 29 June 2016, the shareholders approved the following profit appropriations for the year ended 31 December 2015:**

- Appropriated RMB2,914 million (10% of the net profit of the bank) to surplus reserve;
- Appropriated RMB6,368 million to general reserve; and
- Declared cash dividends to all shareholders of RMB8,869 million representing RMB1.90 per 10 shares before tax.

#### **(c) At the Board Meeting held on 17 June 2016, the dividend distribution of the first preference shares was approved by the Board of Directors:**

- Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.3 per share before tax, start accruing from 25 June 2015, and are calculated using the 5.30% of dividend yield ratio for China Everbright Bank the first phase preference shares.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 44 Involvement with unconsolidated structured entities

- (a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The types of structured entities that the Group does not consolidate but in which it holds an interest include entities set up for wealth management products issued by other financial institutions and beneficiary interests in trust and other plans (“asset management plans”), available-for-sale fund investments, wealth management products and asset-backed securities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at 31 December 2016:

	31 December 2016		31 December 2015	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Debt securities classified as receivables	627,678	627,678	523,427	523,427
Available-for-sale financial assets				
– Fund investments and others	186,794	186,794	28,200	28,200
– Asset-backed securities	-	-	12,385	12,385
Held-to-maturity investments				
– Asset-backed securities	1,688	1,688	-	-
<b>Total</b>	<b>816,160</b>	<b>816,160</b>	<b>564,012</b>	<b>564,012</b>

- (b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2016, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at 31 December 2016, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, is RMB1,028,903 million (31 December 2015: RMB876,855 million).

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **44 Involvement with unconsolidated structured entities (continued)**

- (c) Unconsolidated structure entities sponsored by the Group during the year which the Group does not have an interest in as at 31 December 2016.

The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2016 but matured before 31 December 2016 amounted to RMB771,868 million (2015: RMB543,077 million).

- (d) The amount of fee and commission income received from the above mentioned structured entities by the Group amounted to RMB7,472 million (2015: RMB7,253 million).

### **45 Transferred financial assets**

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

The Group enters into credit assets transfer transactions in the normal course of business by which it transfers credit assets to structured entities which sell trust benefit interests to investors.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2016, loans with an original carrying amount and fair value of RMB6,593 million (31 December 2015: RMB5,204 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches. As at 31 December 2016, the carrying amount of assets that the Group continues to recognise amounts to RMB2,983 million (31 December 2015: RMB2,682 million).



## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **46 Capital management**

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the CBRC. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations promulgated by the CBRC.

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **46 Capital management (continued)**

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with “Regulation Governing Capital of Commercial Banks (provisional)”. For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group’s statutory financial statements prepared in accordance with PRC GAAP. During the year, the Group has complied in full with all its externally imposed capital requirements.

The Group calculates the capital adequacy ratios in accordance with “Regulation Governing Capital of Commercial Banks (provisional)” and relevant requirements promulgated by the CBRC.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**46 Capital management (continued)**

	31 December <u>2016</u>	31 December <u>2015</u>
<b>Total common equity tier-one capital</b>	221,001	203,950
Share capital	46,679	46,679
Qualifying portions of capital reserve and other comprehensive income	33,874	37,294
Surplus reserve	17,951	14,964
General reserve	51,447	40,271
Retained earnings	70,557	64,320
Qualifying portions of non-controlling interests	493	422
<b>Common equity tier-one capital deductions</b>	(2,125)	(2,115)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use right	(844)	(834)
<b>Net common equity tier-one capital</b>	<u>218,876</u>	<u>201,835</u>
<b>Additional tier-one capital</b>	29,997	19,992
Additional tier-one capital instruments	29,947	19,965
Qualifying portions of non-controlling interests	50	27
<b>Tier-one capital net</b>	<u>248,873</u>	<u>221,827</u>
<b>Tier-two capital</b>	39,007	37,655
Qualifying portions of tier-two capital instruments issued and share premium	22,900	22,900
Excess loan loss provisions	16,014	14,680
Qualifying portions of non-controlling interests	93	75
<b>Net capital base</b>	<u>287,880</u>	<u>259,482</u>
<b>Total risk-weighted assets</b>	2,665,037	2,185,516
<b>Common equity tier-one capital adequacy ratio</b>	8.21%	9.24%
<b>Tier-one capital adequacy ratio</b>	9.34%	10.15%
<b>Capital adequacy ratio</b>	10.80%	11.87%

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**47 Notes to consolidated cash flow statements**

(a) Net increase in cash and cash equivalents

	31 December <u>2016</u>	31 December <u>2015</u>
Cash and cash equivalents as at 31 December	241,507	121,964
Less: Cash and cash equivalents as at 1 January	<u>121,964</u>	<u>98,001</u>
Net increase in cash and cash equivalents	<u>119,543</u>	<u>23,963</u>

(b) Cash and cash equivalents

	31 December <u>2016</u>	31 December <u>2015</u>
Cash on hand	6,667	6,594
Deposits with the central bank	66,255	27,553
Deposits with banks and other financial institutions	141,711	30,642
Placements with banks and other financial institutions	<u>26,874</u>	<u>57,175</u>
Total	<u>241,507</u>	<u>121,964</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 48 Related party relationships and transactions

#### (a) The immediate and ultimate parent Companies

The immediate and ultimate parents of the Group are China Everbright Group Ltd. (“China Everbright Group”) and China Investment Corporation.

The national organisation code of China Everbright Group is 10206389-7, and the transactions and balances with China Everbright Group and its affiliates are listed in Note V 48(b).

#### (b) Transactions between the Group and other related parties

##### (i) Other related parties information

Other related parties having transactions with the Group in 2015 and 2016:

<u>Related party</u>	<u>Relationship with the Group</u>
<b>Affiliated companies</b>	
– China Everbright Limited	Shareholder, affiliate of China Everbright Group Ltd.
– Everbright Securities Co., Ltd. (“Everbright Securities”)	Affiliate of China Everbright Group Ltd.
– China Everbright Group Limited	Affiliate of China Everbright Group Ltd.
– China Everbright International Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Industry (Group) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Convention and Exhibition Centre Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Investment And Assets Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Real Estate Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Financial Holding Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Life Insurance Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Xinglong Trust Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Pramerica Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Futures Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Securities Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Fortune Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Capital Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happy Life International Leasing Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Yunfu Internet Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright International Trust & Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Other related parties information (continued)

Other related parties having transactions with the Group in 2015 and 2016 (continued):

<u>Related party</u>	<u>Relationship with the Group</u>
<b>Affiliated companies</b>	
– Everbright Jinhui Asset Management Co., Ltd. (Shanghai)	Affiliate of China Everbright Group Ltd.
– Everbright jin'ou Asset Management Limited	Affiliate of China Everbright Group Ltd.
– Wuxi Everbright Real Estate Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Lide Asset Management (Shanghai) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Jiaxing Meiyin Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Baode Trust Fund Management Co., Ltd	Affiliate of China Everbright Group Ltd.
– Everbright Industrial Capital Management (Shenzhen) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sunshine Fuzun (Shenzhen) Financial Services Consulting Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Banks and Securities Data Network Co., Ltd	Affiliate of China Everbright Group Ltd.
– China Everbright Securities International Limited	Affiliate of China Everbright Group Ltd.
– Everbright Securities Financial Holdings Limited	Affiliate of China Everbright Group Ltd.
– Everbright International Hotel Property Management Co., Ltd	Affiliate of China Everbright Group Ltd.
– Everbright Photon Investment Management Co., Ltd	Affiliate of China Everbright Group Ltd.
– Everbright Deshang Investment Management (Shenzhen) Co., Ltd	Affiliate of China Everbright Group Ltd.
– China Everbright Ivy Investment Management (Shanghai) Co., Ltd	Affiliate of China Everbright Group Ltd.
– Beijing Wenzhi Everbright cultural and creative industry Investment Management Co., Ltd	Affiliate of China Everbright Group Ltd.
– Beijing Everbright Wudaokou Investment Fund Management Co., Ltd	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Securities Equity Investment Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 48 Related party relationships and transactions (continued)

#### (b) Transactions between the Group and other related parties (continued)

##### (i) Other related parties information (continued)

Other related parties having transactions with the Group in 2015 and 2016 (continued):

<u>Related party</u>	<u>Relationship with the Group</u>
<b>Other related parties</b>	
– China Re Asset Management Co., Ltd.	Common key management
– China Shipping (Group) Company	Common key management
– Shanghai International Trust Co., Ltd.	Common key management
– COSCO Finance Co., Ltd.	Common key management
– Shanghai Baosight Software Co, Ltd.	Common key management
– Shanghai Electric Group Co., Ltd.	Common key management
– Vantone Holdings Co., Ltd	Common key management
– Haitong Securities Co., Ltd.	Common key management
– China UnionPay Co., Ltd.	Common key management
– Orient Securities Co., Ltd.	Common key management
– Shanghai ICY New Energy Venture Capital Co., Ltd.	Common key management
– China Pacific Property Insurance Co., Ltd.	Common key management
– China Pacific Life Insurance Co., Ltd.	Common key management
– First-trust Fund Management Co., Ltd	Common key management
– Shanghai Benemae Pharmaceutical Corporation	Common key management
– Hithink Flush Information Network Co., Ltd	Common key management
– Shanghai Electric Group Co., Ltd	Common key management
– China Traditional Chinese Medicine Co., Ltd.	Common key management
– Beijing Science and Technology Park Construction (group) Co. Ltd	Common key management

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Related party relationships and transactions (continued)**

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows:

	China Everbright Group (Note V 48(a))	China Everbright Limited	Affiliated Companies	Others	Total
Transactions with related parties for the year ended 31 December 2016:					
Interest income	-	-	701	27	728
Interest expense	(8)	-	(1,289)	(676)	(1,973)
Balances with related parties as at 31 December 2016:					
Interests receivable	2	-	593	2	597
Loans and advances to customers	-	-	5,142	-	5,142
Positive fair value of derivatives	-	-	1	-	1
Available-for-sale financial assets	190	-	3,000	-	3,190
Held-to-maturity investments	-	-	-	950	950
Debt securities classified as receivables	-	-	196,460	60	196,520
Total	<u>192</u>	<u>-</u>	<u>205,196</u>	<u>1,012</u>	<u>206,400</u>



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Related party relationships and transactions (continued)**

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions(continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows (continued):

	China Everbright Group (Note V 48(a))	China Everbright Limited	Affiliated Companies	Others	Total
Balances with related parties as at 31 December 2016: (continued)					
Deposits from banks and other financial institutions	-	-	8,434	1,204	9,638
Negative fair value of derivatives	-	-	-	1	1
Deposits from customers	460	-	9,308	12,477	22,245
Interests payable	-	-	109	317	426
Other liabilities	-	-	4	-	4
<b>Total</b>	<b>460</b>	<b>-</b>	<b>17,855</b>	<b>13,999</b>	<b>32,314</b>
Significant off-balance items with related parties as at 31 December 2016:					
Guarantee granted (Note)	180	-	-	-	180

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Related party relationships and transactions (continued)**

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows (continued):

	China Everbright Group (Note V 48(a))	China Everbright Limited	Affiliated Companies	Others	Total
Transactions with related parties for the year ended 31 December 2015:					
Interest income	-	-	86	24	110
Interest expense	-	-	(2,427)	(939)	(3,366)
Balances with related parties as at 31 December 2015:					
Financial assets at fair value through profit or loss	-	-	-	105	105
Financial assets held under resale agreements	-	-	349	624	973
Interests receivable	-	-	47	19	66
Loans and advances to customers	-	-	533	-	533
Available-for-sale financial assets	-	-	998	-	998
Held-to-maturity investments	-	-	-	900	900
Debt securities classified as receivables	-	-	80,539	2,000	82,539
Other assets	-	-	4	65	69
<b>Total</b>	<b>-</b>	<b>-</b>	<b>82,470</b>	<b>3,713</b>	<b>86,183</b>

China Everbright Bank Company Limited  
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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Related party relationships and transactions (continued)**

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions(continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows (continued):

	China Everbright Group (Note V 48(a))	China Everbright Limited	Affiliated Companies	Others	Total
Balances with related parties as at 31 December 2016: (continued)					
Deposits from banks and other financial institutions	-	-	12,318	2,964	15,282
Deposits from customers	546	-	78,420	12,754	91,720
Interests payable	-	-	995	110	1,105
Other liabilities	-	-	4	-	4
<b>Total</b>	<b>546</b>	<b>-</b>	<b>91,737</b>	<b>15,828</b>	<b>108,111</b>
Significant off-balance items with related parties as at 31 December 2015:					
Guarantee granted (Note)	180	-	-	-	180

*Note:*

As at 31 December 2016, the Bank has guarantee obligations relating to the China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2015: RMB180 million) due to one of the state-owned commercial banks.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Related party relationships and transactions (continued)**

(c) China Investment Corporation, Central Huijin Investment Ltd. and its affiliates

Approved by the State Council of the PRC, China Investment Corporation was established on 29 September 2007 with a registered capital of USD 200 billion. Central Huijin Investment Ltd. (“Huijin”) is a wholly owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC.

Huijin was incorporated as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with a registered capital of RMB828,209 million. Apart from equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group’s transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, interbank deposits and certificates of deposits which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year.

The Group’s material transactions and balances with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	<u>2016</u>	<u>2015</u>
Interest income	7,140	4,875
Interest expense	(5,981)	(5,261)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Related party relationships and transactions (continued)**

(c) China Investment Corporation, Huijin and its affiliates (continued)

	31 December <u>2016</u>	31 December <u>2015</u>
Deposits with banks and other financial institutions	71,096	5,049
Placements with banks and other financial institutions	14,523	31,266
Financial assets at fair value through profit or loss	651	380
Positive fair value of derivatives	2,041	222
Financial assets held under resale agreements	10,210	7,152
Interests receivable	4,355	2,457
Loans and advances to customers	341	1,631
Available-for-sale financial assets	48,964	7,588
Held-to-maturity investments	13,601	12,645
Debt securities classified as receivables	111,896	122,095
Other assets	570	-
Deposits from banks and other financial institutions	256,275	135,682
Placements from banks and other financial institutions	33,821	17,659
Negative fair value of derivatives	973	208
Financial assets sold under repurchase agreements	15,627	36,628
Deposits from customers	13,271	28,637
Interests payable	1,643	1,179
Other liabilities	1	-

(d) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (“state-owned entities”). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group’s banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group’s pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Related party relationships and transactions (continued)**

(e) Key management personnel

	31 December <u>2016</u> RMB'000	31 December <u>2015</u> RMB'000
Remuneration	<u>20,116</u>	<u>21,904</u>
Retirement benefits	<u>1,182</u>	<u>1,154</u>
- Basic social pension insurance	<u>636</u>	<u>602</u>

The total compensation packages for senior management of the Group for the year ended 31 December 2016 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2016 financial statements.

(f) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December <u>2016</u> RMB'000	31 December <u>2015</u> RMB'000
Aggregate amount of relevant loans outstanding as at the year end	<u>14,034</u>	<u>17,572</u>
Maximum aggregate amount of relevant loans outstanding during the year	<u>18,686</u>	<u>21,045</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**49 Statement of financial position of the Company**

	<u>Note V</u>	31 December <u>2016</u>	31 December <u>2015</u>
<b>Assets</b>			
Cash and deposits with the central bank		381,493	326,514
Deposits with banks and other financial institutions		230,394	85,628
Placements with banks and other financial institutions		130,214	134,861
Financial assets at fair value through profit or loss		7,834	5,637
Positive fair value of derivatives		4,949	1,625
Financial assets held under resale agreements		67,000	153,045
Interests receivable		24,877	18,334
Loans and advances to customers		1,750,693	1,474,494
Available-for-sale financial assets		423,371	222,157
Held-to-maturity investments		258,200	153,012
Debt securities classified as receivables		627,678	523,427
Investments in subsidiaries	23	3,369	3,369
Fixed assets		11,977	12,613
Goodwill		1,281	1,281
Deferred tax assets		5,348	3,765
Other assets		34,841	12,553
<b>Total assets</b>		<u>3,963,519</u>	<u>3,132,315</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**49 Statement of financial position of the Company (continued)**

	31 December <u>2016</u>	31 December <u>2015</u>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Due to the central bank	187,000	14,800
Deposits from banks and other financial institutions	834,288	543,300
Placements from banks and other financial institutions	48,879	33,431
Negative fair value of derivatives	4,368	1,391
Financial assets sold under repurchase agreements	41,195	58,873
Deposits from customers	2,119,882	1,992,919
Accrued staff costs	7,631	11,119
Taxes payable	4,352	6,240
Interests payable	33,174	30,418
Debts securities issued	409,700	207,261
Other liabilities	24,592	10,585
<b>Total liabilities</b>	<b>3,715,061</b>	<b>2,910,337</b>
<b>Equity</b>		
Share capital	46,679	46,679
Other equity instrument	29,947	19,965
Capital reserve	33,365	33,365
Other comprehensive income	478	3,920
Surplus reserve	17,951	14,964
General reserve	50,633	40,271
Retained earnings	69,405	62,814
<b>Total equity</b>	<b>248,458</b>	<b>221,978</b>
<b>Total liabilities and equity</b>	<b>3,963,519</b>	<b>3,132,315</b>

Approved and authorised for issue by the board of directors on 30 March 2017.

Tang Shuangning  
Chairman of the Board  
of Directors,  
Non-executive Director

Zhang Jinliang  
President  
Executive Director

Xie Rong  
Independent Non-executive  
Director



## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **50 Segment reporting**

The Group divides its operation by business line and geographical area into different operating segments, and manages them accordingly. In order to better reflect the Group's future business developments and to provide more useful information to the users of the financial statements, this year, the Group has combined the interbank business and the treasury business into the 'financial markets business' for disclosure purposes, and split the asset management business and the custody business across the corporate banking, the retail banking and financial markets businesses. The comparative segment information for the same period last year has also been adjusted. The Group defines reporting segments based on the following operating segments:

#### *Corporate banking*

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

#### *Retail banking*

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

#### *Financial market business*

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchases transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

#### *Others*

These represent equity investments and related income.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Segment reporting (continued)**

(a) Segment results, assets and liabilities

	2016				<u>Total</u>
	<u>Corporate banking</u>	<u>Retail banking</u>	<u>Financial market business</u>	<u>Others</u>	
Operating income					
External net interest income	17,357	18,266	29,665	-	65,288
Internal net interest income/(expense)	<u>17,015</u>	<u>(5,936)</u>	<u>(11,079)</u>	<u>-</u>	<u>-</u>
Net interest income	34,372	12,330	18,586	-	65,288
Net fee and commission income	6,810	16,957	4,345	-	28,112
Net trading gains	-	-	223	-	223
Dividend income	-	-	-	5	5
Net gains /(losses) arising from investment securities	-	21	(282)	-	(261)
Foreign exchange gains (losses)	786	105	(553)	-	338
Other net operating income	<u>420</u>	<u>66</u>	<u>18</u>	<u>156</u>	<u>660</u>
Operating income	<u>42,388</u>	<u>29,479</u>	<u>22,337</u>	<u>161</u>	<u>94,365</u>
Operating expenses	<u>(13,545)</u>	<u>(14,072)</u>	<u>(2,515)</u>	<u>(122)</u>	<u>(30,254)</u>
Operating profit before impairment	28,843	15,407	19,822	39	64,111
Impairment losses on assets	<u>(17,806)</u>	<u>(5,031)</u>	<u>(1,094)</u>	<u>-</u>	<u>(23,931)</u>
Profit before tax	<u>11,037</u>	<u>10,376</u>	<u>18,728</u>	<u>39</u>	<u>40,180</u>
Other segment information					
- Depreciation and amortisation	<u>(1,011)</u>	<u>(1,036)</u>	<u>(135)</u>	<u>-</u>	<u>(2,182)</u>
- Capital expenditure	<u>2,348</u>	<u>757</u>	<u>105</u>	<u>-</u>	<u>3,210</u>
			31 December 2016		
	<u>Corporate banking</u>	<u>Retail Banking</u>	<u>Financial market business</u>	<u>Others</u>	<u>Total</u>
Segment assets	<u>1,434,132</u>	<u>813,671</u>	<u>1,764,652</u>	<u>684</u>	<u>4,013,139</u>
Segment liabilities	<u>1,726,670</u>	<u>493,530</u>	<u>1,546,910</u>	<u>1,844</u>	<u>3,768,954</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Segment reporting (continued)**

(a) Segment results, assets and liabilities (continued)

	2015				<u>Total</u>
	<u>Corporate banking</u>	<u>Retail banking</u>	<u>Financial market business</u>	<u>Others</u>	
Operating income					
External net interest income	19,490	18,136	28,833	-	66,459
Internal net interest income/(expense)	<u>15,907</u>	<u>(5,629)</u>	<u>(10,278)</u>	<u>-</u>	<u>-</u>
Net interest income	35,397	12,507	18,555	-	66,459
Net fee and commission income	7,218	14,897	4,186	-	26,301
Net trading losses	-	-	335	-	335
Dividend income	-	-	-	4	4
Net gains arising from investment securities	-	10	3	-	13
Foreign exchange gains/(losses)	236	83	(391)	-	(72)
Other net operating income	<u>123</u>	<u>40</u>	<u>13</u>	<u>148</u>	<u>324</u>
Operating income	<u>42,974</u>	<u>27,537</u>	<u>22,701</u>	<u>152</u>	<u>93,364</u>
Operating expenses	<u>(14,470)</u>	<u>(14,279)</u>	<u>(3,541)</u>	<u>(64)</u>	<u>(32,354)</u>
Operating profit before impairment	28,504	13,258	19,160	88	61,010
Impairment losses on assets	<u>(15,022)</u>	<u>(5,261)</u>	<u>(1,369)</u>	<u>-</u>	<u>(21,652)</u>
Profit before tax	<u>13,482</u>	<u>7,997</u>	<u>17,791</u>	<u>88</u>	<u>39,358</u>
Other segment information					
- Depreciation and amortisation	<u>(933)</u>	<u>(1,018)</u>	<u>(154)</u>	<u>-</u>	<u>(2,105)</u>
- Capital expenditure	<u>790</u>	<u>862</u>	<u>130</u>	<u>-</u>	<u>1,782</u>
	31 December 2015				
	<u>Corporate banking</u>	<u>Retail banking</u>	<u>Financial market business</u>	<u>Others</u>	<u>Total</u>
Segment assets	<u>1,254,760</u>	<u>671,926</u>	<u>1,235,055</u>	<u>765</u>	<u>3,162,506</u>
Segment liabilities	<u>1,607,386</u>	<u>475,666</u>	<u>860,425</u>	<u>158</u>	<u>2,943,635</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Segment reporting (continued)**

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	<u>Note V</u>	31 December <u>2016</u>	31 December <u>2015</u>
Segment assets		4,013,139	3,162,506
Goodwill	25	1,281	1,281
Deferred tax assets	26	<u>5,622</u>	<u>3,923</u>
Total assets		<u>4,020,042</u>	<u>3,167,710</u>
Segment liabilities		3,768,954	2,943,635
Dividend payables	37	<u>20</u>	<u>28</u>
Total liabilities		<u>3,768,974</u>	<u>2,943,663</u>

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **50 Segment reporting (continued)**

#### **(b) Geographical information**

The Group operates principally in mainland China with branches located in 30 provinces, autonomous regions and municipalities directly under the central government, with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province and Hong Kong.

Non-current assets include property and equipment, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- “Yangtze River Delta” refers to the following areas serviced by subsidiary and branches of the Bank: Huai’an Everbright, Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;
- “Pearl River Delta” refers to the following areas serviced by branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;
- “Bohai Rim” refers to the following areas serviced by branches of the Bank: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;
- “Central” refers to the following areas serviced by subsidiaries and branches of the Bank: Everbright Financial Leasing and Shaoshan Everbright, Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;
- “Western” refers to the following areas serviced by branches of the Bank: Xi’an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou and Yinchuan;
- “Northeastern” refers to the following areas serviced by branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;
- “Overseas” refers to the following areas serviced by branches of the Bank: Hong Kong, Seoul; and
- “Head Office” refers to the headquarter of the Group.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Segment reporting (continued)**

(b) Geographical information (continued)

	Operating Income								
	<u>Yangtze River Delta</u>	<u>Bohai Rim</u>	<u>Head Office</u>	<u>Central</u>	<u>Pearl River Delta</u>	<u>Western</u>	<u>North eastern</u>	<u>Over- -seas</u>	<u>Total</u>
2016	15,423	13,599	28,793	12,974	9,563	8,865	4,509	639	94,365
2015	14,882	15,200	27,557	11,625	9,715	9,244	4,714	427	93,364
	Non-current Asset (Note(i))								
	<u>Yangtze River Delta</u>	<u>Bohai Rim</u>	<u>Head Office</u>	<u>Central</u>	<u>Pearl River Delta</u>	<u>Western</u>	<u>North eastern</u>	<u>Over- -seas</u>	<u>Total</u>
31 December 2016	2,617	970	4,914	3,388	1,202	1,067	966	54	15,178
31 December 2015	2,751	1,033	5,171	1,234	1,234	1,103	1,021	45	13,592

*Note:*

(i) Including fixed and intangible assets.

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **51 Risk Management**

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

#### **(a) Credit risk**

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

##### *Credit business*

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. The senior management is responsible for the improvement of risk management system and establishment of risk management policies and rules. The senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And the senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 51 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Credit business (continued)*

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and is responsible for the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

- The Corporate Banking Department, Small and Micro Enterprises Finance Department, Retail Banking Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, they are the first line of defense of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.
- The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Credit Management Department, and Special Assets Resolution Department. They are the second line of defense of internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology - Investigation and approval – During and post-lending monitoring - Collection and Resolution". The Risk Management Department is responsible for the planning and co-ordination of the overall risk management system of the Group, leading the development of the basic policies of credit risk management, leading the development of the credit system and procedures, and leading the development of general industry-specific limits policy which covers credit business; The Credit Approval Department is responsible for overall planning and management of credit lines evaluation and approval of general risk business includes corporate and institutions, banks and other financial institutions, retail business and group client. The Credit Approval Department is responsible for approving credit lines which beyond the approval authority of branches and those managed directly by head quarter. The credit approval authority is independent of the business line departments to ensure the independence of the credit approval; The Credit Management Department is responsible for post-lending monitoring and risk warnings monitoring of corporate business, and is responsible for the control and management of the key phases of credit business and guide the operation of credit payment review of the Bank; The Retail Business Department is responsible for post-lending monitoring and risk warnings monitoring of retail business; The Special Assets Resolution Department is responsible for collection and disposal of non-performing assets, management and disposal of repossessed assets of the Group, etc. The above credit risk management function departments constitute the second line of defense of credit risk management, and are responsible for the overall supervision of credit risk management.



## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **51 Risk Management (continued)**

#### **(a) Credit risk (continued)**

##### *Credit business (continued)*

- The Internal Audit Department is the third line of defense of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate businesses, the Group has established industry-specific limits for credit approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluating and approving in accordance with the principle of separation of duties for approval and lending as well as hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conform with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collaterals and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loan issued by China Banking Regulatory Commission (CBRC).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 51 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Credit business (continued)*

The core definitions of the five categories of loans and advances are set out below:

- |                  |  |
|------------------|--|
| Normal:          | Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.  |
| Special mention: | Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.  |
| Substandard:     | Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked. |
| Doubtful:        | Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.  |
| Loss:            | Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.                              |

##### *Treasury Business*

The Group sets credit limits for treasury operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

#### (i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of these off-balance sheet items as at the end of the year is disclosed in Note V 54(a).

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk Management (continued)**

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows:

	31 December 2016					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(*)	Others(**)
<i>Impaired</i>						
Individually assessed gross amount	21,412	501	16	-	4,074	279
Provision for impairment losses	(11,285)	(403)	(16)	-	(1,092)	(106)
Sub-total	10,127	98	-	-	2,982	173
Collectively assessed gross amount	7,290	-	-	-	-	1,216
Provision for impairment losses	(3,758)	-	-	-	-	(94)
Sub-total	3,532	-	-	-	-	1,122
<i>Overdue but not impaired</i>						
Gross amount						
– Less than 3 months (inclusive)	15,352	71	-	-	-	-
– Between 3 months and 6 months (inclusive)	3,083	44	-	-	-	-
– Over 6 months	6,656	98	350	-	1	-
Gross amount	25,091	213	350	-	1	-
Provision for impairment losses	(4,519)	(139)	-	-	-	-
Sub-total	20,572	74	350	-	1	-

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk Management (continued)**

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows (continued):

	31 December 2016					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(*)	Others(**)
<i>Neither overdue nor impaired</i>						
Gross amount	1,741,485	56,355	358,609	67,000	1,316,657	38,484
Provision for impairment losses	<u>(24,072)</u>	<u>(967)</u>	<u>(24)</u>	<u>-</u>	<u>(1,497)</u>	<u>(394)</u>
Sub-total	<u>1,717,413</u>	<u>55,388</u>	<u>358,585</u>	<u>67,000</u>	<u>1,315,160</u>	<u>38,090</u>
Total	<u><u>1,751,644</u></u>	<u><u>55,560</u></u>	<u><u>358,935</u></u>	<u><u>67,000</u></u>	<u><u>1,318,143</u></u>	<u><u>39,385</u></u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk Management (continued)**

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows (continued):

	31 December 2015					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(*)	Others(**)
<i>Impaired</i>						
Individually assessed gross amount	19,227	308	16	-	313	322
Provision for impairment losses	(10,083)	(205)	(16)	-	(173)	(83)
Sub-total	9,144	103	-	-	140	239
Collectively assessed gross amount	5,148	-	-	-	-	976
Provision for impairment losses	(2,369)	-	-	-	-	(81)
Sub-total	2,779	-	-	-	-	895
<i>Overdue but not impaired</i>						
Gross amount						
– Less than 3 months (inclusive)	26,342	230	-	-	282	-
– Between 3 months and 6 months (inclusive)	4,890	-	-	-	-	-
– Over 6 months	8,155	-	350	-	1,968	-
Gross amount	39,387	230	350	-	2,250	-
Provision for impairment losses	(5,569)	(31)	-	-	(8)	-
Sub-total	33,818	199	350	-	2,242	-

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk Management (continued)**

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows (continued):

	31 December 2015					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(*)	Others(**)
<i>Neither overdue nor impaired</i>						
Gross amount	1,449,781	39,134	218,337	153,045	902,891	24,536
Provision for impairment losses	<u>(20,098)</u>	<u>(701)</u>	<u>(15)</u>	<u>-</u>	<u>(1,402)</u>	<u>(409)</u>
Sub-total	<u>1,429,683</u>	<u>38,433</u>	<u>218,322</u>	<u>153,045</u>	<u>901,489</u>	<u>24,127</u>
Total	<u>1,475,424</u>	<u>38,735</u>	<u>218,672</u>	<u>153,045</u>	<u>903,871</u>	<u>25,261</u>

\* Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

\*\* Others comprise positive fair value of derivatives, interests receivable, assets from wealth management business recorded in other assets, and other receivables.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk Management (continued)**

(a) Credit risk (continued)

(iii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Carrying value		
<i>Individually assessed and impaired</i>		
Gross amount	16	16
Provision for impairment losses	<u>(16)</u>	<u>(16)</u>
Sub-total	<u>-</u>	<u>-</u>
 <i>Overdue but not impaired</i>		
– grade A to AAA	<u>350</u>	<u>350</u>
Sub-total	<u>350</u>	<u>350</u>
 <i>Neither overdue nor impaired</i>		
– grade A to AAA	383,144	241,116
– grade B to BBB	32,069	32,878
– unrated (Note)	<u>10,372</u>	<u>97,373</u>
Sub-total	<u>425,585</u>	<u>371,367</u>
 Total	<u><u>425,935</u></u>	<u><u>371,717</u></u>

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk Management (continued)**

(a) Credit risk (continued)

(iii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the year are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Carrying value		
<i>Individually assessed and impaired</i>		
Gross amount	1,509	312
Provision for impairment losses	<u>(745)</u>	<u>(172)</u>
Sub-total	<u>764</u>	<u>140</u>
 <i>Neither overdue nor impaired Bloomberg Composite</i>		
- grade AAA	687	161
- grade AA- to AA+	536	873
- grade A- to A+	4,981	1,782
- grade lower than A-	<u>3,767</u>	<u>1,710</u>
Sub-total	<u>9,971</u>	<u>4,526</u>
 Other agency ratings		
- grade AAA	180,112	75,389
- grade AA- to AA+	296,321	78,093
- grade A- to A+	2,330	155,229
- grade lower than A-	2,373	1,430
- unrated	<u>11,160</u>	<u>36,629</u>
Sub-total	<u>492,296</u>	<u>346,770</u>
 Total	<u><u>503,031</u></u>	<u><u>351,436</u></u>



## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **51 Risk Management (continued)**

#### **(b) Market risk**

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 51 Risk Management (continued)

#### (b) Market risk (continued)

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

#### **Interest rate risk**

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

##### *Repricing risk*

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Assets and Liability Management Department of the Group is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

##### *Trading interest rate risk*

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk Management (continued)**

(b) Market risk (continued)

**Interest rate risk (continued)**

(i) The following tables indicate the effective interest rates for the reporting period and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, depending on which is earlier:

	Effective interest rate (Note)	Total	31 December 2016				
			Non- interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>							
Cash and deposits with the central bank	1.49%	381,620	14,831	366,789	-	-	-
Deposits with banks and other financial institutions	2.86%	232,630	-	166,543	66,087	-	-
Placements with banks and other financial institutions	3.20%	126,305	-	41,249	84,646	410	-
Financial assets held under resale agreements	2.98%	67,000	-	65,000	2,000	-	-
Loans and advances to customers	4.57%	1,751,644	23,124	1,359,000	350,397	15,924	3,199
Finance lease receivables	3.99%	55,560	44	54,023	749	89	655
Investments (Note )	4.03%	1,318,143	1,906	237,364	424,925	562,973	90,975
Others	-	87,140	84,123	2,073	810	134	-
<b>Total assets</b>	<b>3.92%</b>	<b>4,020,042</b>	<b>124,028</b>	<b>2,292,041</b>	<b>929,614</b>	<b>579,530</b>	<b>94,829</b>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk Management (continued)**

(b) Market risk (continued)

**Interest rate risk (continued)**

(i) The following tables indicate the effective interest rates for the reporting period and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, depending on which is earlier (continued) :

	31 December 2016						
	<u>Effective interest rate</u> (Note)	<u>Total</u>	<u>Non- interest bearing</u>	<u>Less than three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>
<b>Liabilities</b>							
Due to the central bank	3.00%	187,000	-	22,000	165,000	-	-
Deposits from banks and other financial institutions	2.85%	830,354	-	678,441	151,913	-	-
Placements from banks and other financial institutions	2.45%	95,501	23	57,029	38,449	-	-
Financial assets sold under repurchase agreements	2.23%	41,195	-	40,448	747	-	-
Deposits from customers	1.98%	2,120,887	6,824	1,581,014	327,249	205,798	2
Debt securities issued	3.27%	412,500	-	106,911	276,090	6,599	22,900
Others	-	81,537	73,439	6,549	996	553	-
<b>Total liabilities</b>	<b>2.33%</b>	<b>3,768,974</b>	<b>80,286</b>	<b>2,492,392</b>	<b>960,444</b>	<b>212,950</b>	<b>22,902</b>
<b>Asset-liability gap</b>	<b>1.59%</b>	<b>251,068</b>	<b>43,742</b>	<b>(200,351)</b>	<b>(30,830)</b>	<b>366,580</b>	<b>71,927</b>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk Management (continued)**

(b) Market risk (continued)

**Interest rate risk (continued)**

(i) The following tables indicate the effective interest rates for the reporting period and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, depending on which is earlier (continued) :

	31 December 2015						
	<u>Effective interest rate</u> (Note)	<u>Total</u>	<u>Non-interest bearing</u>	<u>Less than three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>
<b>Assets</b>							
Cash and deposits with the central bank	1.50%	326,735	16,083	310,652	-	-	-
Deposits with banks and other financial institutions	3.11%	86,311	-	60,575	25,736	-	-
Placements with banks and other financial institutions	3.01%	132,361	-	65,982	66,379	-	-
Financial assets held under resale agreements	4.26%	153,045	-	88,570	64,475	-	-
Loans and advances to customers	5.80%	1,475,424	23,650	1,066,498	374,269	7,827	3,180
Finance lease receivables	4.51%	38,735	-	38,735	-	-	-
Investments (Note)	5.02%	903,871	676	232,547	290,699	303,654	76,295
Others	-	51,228	49,561	1,667	-	-	-
<b>Total assets</b>	<b>4.81%</b>	<b>3,167,710</b>	<b>89,970</b>	<b>1,865,226</b>	<b>821,558</b>	<b>311,481</b>	<b>79,475</b>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk Management (continued)**

(b) Market risk (continued)

**Interest rate risk (continued)**

(i) The following tables indicate the effective interest rates for the reporting period and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, depending on which is earlier (continued) :

	31 December 2015						
	<u>Effective interest rate</u> (Note)	<u>Total</u>	<u>Non- interest bearing</u>	<u>Less than three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>
<b>Liabilities</b>							
Due to the central bank	3.49%	14,840	-	8,000	6,840	-	-
Deposits from banks and other financial institutions	3.35%	541,066	-	538,633	2,433	-	-
Placements from banks and other financial institutions	2.41%	60,305	22	38,087	22,196	-	-
Financial assets sold under repurchase agreements	2.20%	58,873	-	56,517	2,356	-	-
Deposits from customers	2.54%	1,993,843	4,009	1,229,275	463,965	271,049	25,545
Debt securities issued	4.25%	210,061	-	97,939	63,922	25,300	22,900
Others	-	64,675	61,851	1,444	1,265	115	-
<b>Total liabilities</b>	<u>2.80%</u>	<u>2,943,663</u>	<u>65,882</u>	<u>1,969,895</u>	<u>562,977</u>	<u>296,464</u>	<u>48,445</u>
<b>Asset-liability gap</b>	<u>2.01%</u>	<u>224,047</u>	<u>24,088</u>	<u>(104,669)</u>	<u>258,581</u>	<u>15,017</u>	<u>31,030</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 51 Risk Management (continued)

#### (b) Market risk (continued)

##### Interest rate risk (continued)

- (i) The following tables indicate the effective interest rates for the reporting period and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, depending on which is earlier: (continued)

*Note:*

- Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.
- Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

#### (ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2016, assuming other variables remain unchanged, an increase in estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB2,442 million (31 December 2015: RMB2,428 million), and equity to decrease by RMB5,257 million (31 December 2015: RMB5,723 million); a decrease in estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB2,448 million (31 December 2015: RMB2,438 million), and equity to increase by RMB5,436 million (31 December 2015: RMB5,904 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 51 Risk management (continued)

#### (b) Market risk (continued)

##### Interest rate risk (continued)

##### (ii) Interest rate sensitivity analysis (continued)

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of the year apply to all derivative and non-derivative financial instruments of the Group;
- At the end of the year, an interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

##### Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk management (continued)**

(b) Market risk (continued)

**Foreign currency risk (continued)**

The Group's currency exposures as at the end of the year are as follows:

	31 December 2016			
	<u>RMB</u>	US Dollars (RMB <u>Equivalent</u> )	Others (RMB <u>Equivalent</u> )	Total (RMB <u>Equivalent</u> )
<b>Assets</b>				
Cash and deposits with the central bank	376,515	4,606	499	381,620
Deposits with banks and other financial institutions	217,010	12,734	2,886	232,630
Placements with banks and other financial institutions	108,790	14,987	2,528	126,305
Financial assets held under resale agreements	67,000	-	-	67,000
Loans and advances to customers	1,683,451	45,396	22,797	1,751,644
Finance lease receivables	54,833	727	-	55,560
Investments (Note (i))	1,295,648	20,138	2,357	1,318,143
Others	83,782	2,470	888	87,140
<b>Total assets</b>	<u>3,887,029</u>	<u>101,058</u>	<u>31,955</u>	<u>4,020,042</u>
<b>Liabilities</b>				
Due to the central bank	187,000	-	-	187,000
Deposits from banks and other financial institutions	829,623	677	54	830,354
Placements from banks and other financial institutions	55,207	30,650	9,644	95,501
Financial assets sold under repurchase agreements	41,195	-	-	41,195
Deposit from customers	2,031,212	72,528	17,147	2,120,887
Debt securities issued	405,481	5,049	1,970	412,500
Others	75,911	4,210	1,416	81,537
<b>Total liabilities</b>	<u>3,625,629</u>	<u>113,114</u>	<u>30,231</u>	<u>3,768,974</u>
<b>Net position</b>	<u>261,400</u>	<u>(12,056)</u>	<u>1,724</u>	<u>251,068</u>
Off-balance sheet credit commitments	<u>676,940</u>	<u>19,249</u>	<u>5,928</u>	<u>702,117</u>
Derivative financial instruments (Note (ii))	<u>(15,445)</u>	<u>14,656</u>	<u>1,462</u>	<u>673</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk management (continued)**

(b) Market risk (continued)

**Foreign currency risk (continued)**

The Group's currency exposures as at the end of the year are as follows (continued):

	31 December 2015			
	<u>RMB</u>	<u>US Dollars (RMB Equivalent)</u>	<u>Others (RMB Equivalent)</u>	<u>Total (RMB Equivalent)</u>
<b>Assets</b>				
Cash and deposits with the central bank	321,412	4,696	627	326,735
Deposits with banks and other financial institutions	77,701	4,225	4,385	86,311
Placements with banks and other financial institutions	84,330	47,876	155	132,361
Financial assets held under resale agreements	153,045	-	-	153,045
Loans and advances to customers	1,431,484	33,943	9,997	1,475,424
Finance lease receivables	38,561	174	-	38,735
Investments (Note (i))	895,080	8,582	209	903,871
Others	49,806	1,146	276	51,228
<b>Total assets</b>	<u>3,051,419</u>	<u>100,642</u>	<u>15,649</u>	<u>3,167,710</u>
<b>Liabilities</b>				
Due to the central bank	14,840	-	-	14,840
Deposits from banks and other financial institutions	537,681	3,355	30	541,066
Placements from banks and other financial institutions	37,450	18,898	3,957	60,305
Financial assets sold under repurchase agreements	58,873	-	-	58,873
Deposit from customers	1,899,128	69,478	25,237	1,993,843
Debt securities issued	204,204	1,682	4,175	210,061
Others	62,947	1,476	252	64,675
<b>Total liabilities</b>	<u>2,815,123</u>	<u>94,889</u>	<u>33,651</u>	<u>2,943,663</u>
<b>Net position</b>	<u>236,296</u>	<u>5,753</u>	<u>(18,002)</u>	<u>224,047</u>
Off-balance sheet credit commitments	<u>676,069</u>	<u>21,856</u>	<u>4,807</u>	<u>702,732</u>
Derivative financial instruments (Note (ii))	<u>(32,176)</u>	<u>13,117</u>	<u>19,359</u>	<u>300</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk management (continued)**

(b) Market risk (continued)

**Foreign currency risk (continued)**

*Note:*

- (i) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.
- (ii) Derivative financial instruments reflect the net notional amounts of derivatives.

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Exchange rates against RMB for the HK dollars	0.8956	0.8378
Exchange rates against RMB for the US dollars	6.9450	6.4939

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2016, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB6 million (31 December 2015: RMB23 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB6 million (31 December 2015: RMB23 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB;
- The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 51 Risk management (continued)

#### (b) Market risk (continued)

##### **Foreign currency risk (continued)**

- The exchange rates against RMB for the US dollars and HK dollars change in the same direction simultaneously. Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

##### **Price risk**

Equity instrument investment price risk refers to the fair value of the equity securities by stock index level and the change of the value of individual securities and reduce risk. The Group is exposed to equity price risk on its available for sale listed equity securities. As at 31 December 2016, a 5 percentage variance in listed equity prices from the year end price would impact the net asset by RMB962 million (31 December 2015: RMB1,067 million). For those available for sale equities considered impaired, the impact would be taken to the statement of profit and loss.

#### (c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **51 Risk management (continued)**

#### **(c) Liquidity risk (continued)**

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of various business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximisation and cost minimisation to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Assets and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium- and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Assets and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group will proactively promote the growth of stable sources of liabilities such as core deposits, and will also continue to implement the optimization of liability structure through issuing various bonds as appropriate. The Group will expand liability channels and enhance diversified proactive liability capability to improve the Bank's stability of capital sources, and ensure the appropriate total amounts, stable sources, diversified structure and matching terms, thus preventing market risks effectively.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plan to respond to various possible liquidity risks.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk management (continued)**

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2016							<u>Total</u>
	<u>Indefinite</u>	<u>Repayable on demand</u>	<u>Within one month</u>	<u>Between one month and three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
Assets								
Cash and deposits with the central bank	308,698	72,922	-	-	-	-	-	381,620
Deposit with banks and other financial institutions	350	107,399	31,397	22,904	70,280	300	-	232,630
Placement with banks and other financial institutions	-	-	18,513	22,736	84,646	410	-	126,305
Financial asset held under resale agreements	-	-	61,383	3,617	2,000	-	-	67,000
Loans and advances to customers	33,626	209,601	65,262	118,212	458,974	423,127	442,842	1,751,644
Finance lease receivables	116	-	581	3,467	10,677	32,785	7,934	55,560
Investments (*)	1,187	25,538	82,832	125,547	425,244	566,893	90,902	1,318,143
Others	47,671	7,674	2,093	12,514	13,659	3,514	15	87,140
<b>Total assets</b>	<b>391,648</b>	<b>423,134</b>	<b>262,061</b>	<b>308,997</b>	<b>1,065,480</b>	<b>1,027,029</b>	<b>541,693</b>	<b>4,020,042</b>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk management (continued)**

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year (continued):

	31 December 2016							Total
	<u>Indefinite</u>	<u>Repayable on demand</u>	<u>Within one month</u>	<u>Between one month and three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
Liabilities								
Due to the central bank	-	-	20,000	2,000	165,000	-	-	187,000
Deposits from banks and other financial institutions	-	185,240	260,340	232,861	151,783	130	-	830,354
Placements from banks and other financial institutions	-	23	24,481	32,548	38,449	-	-	95,501
Financial assets sold under repurchase agreements	-	-	34,686	5,762	747	-	-	41,195
Deposit from customers	-	1,082,376	133,953	266,783	392,789	244,984	2	2,120,887
Debt securities issued	-	-	14,322	91,689	276,990	6,599	22,900	412,500
Others	-	29,393	12,748	6,033	15,986	16,848	529	81,537
Total liabilities	-	<u>1,297,032</u>	<u>500,530</u>	<u>637,676</u>	<u>1,041,744</u>	<u>268,561</u>	<u>23,431</u>	<u>3,768,974</u>
Long/(Short) position	<u>391,648</u>	<u>(873,898)</u>	<u>(238,469)</u>	<u>(328,679)</u>	<u>23,736</u>	<u>758,468</u>	<u>518,262</u>	<u>251,068</u>
Notional amount of derivative financial instruments	-	-	90,122	57,065	269,778	32,811	-	449,776

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk management (continued)**

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year (continued):

	31 December 2015							<u>Total</u>
	<u>Indefinite</u>	<u>Repayable on demand</u>	<u>Within one month</u>	<u>Between one month and three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
Assets								
Cash and deposits with the central bank	292,588	34,147	-	-	-	-	-	326,735
Deposit with banks and other financial institutions	350	14,883	31,605	12,330	26,836	307	-	86,311
Placement with banks and other financial institutions	-	-	47,479	18,503	66,379	-	-	132,361
Financial asset held under resale agreements	-	-	78,563	10,007	64,475	-	-	153,045
Loans and advances to customers	32,698	178,184	61,751	136,580	466,630	350,552	249,029	1,475,424
Finance lease receivables	193	-	109	2,098	7,901	22,513	5,921	38,735
Investments (*)	645	30,492	48,519	142,794	291,194	313,415	76,812	903,871
Others	21,036	5,045	5,210	12,117	7,438	370	12	51,228
<b>Total assets</b>	<b>347,510</b>	<b>262,751</b>	<b>273,236</b>	<b>334,429</b>	<b>930,853</b>	<b>687,157</b>	<b>331,774</b>	<b>3,167,710</b>



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk management (continued)**

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year (continued):

	31 December 2015							<u>Total</u>
	<u>Indefinite</u>	<u>Repayable on demand</u>	<u>Within one month</u>	<u>Between one month and three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
Liabilities								
Due to the central bank	-	-	5,000	3,000	6,840	-	-	14,840
Deposits from banks and other financial institutions	-	160,543	111,726	212,503	55,239	1,055	-	541,066
Placements from banks and other financial institutions	-	22	21,436	16,651	22,196	-	-	60,305
Financial assets sold under repurchase agreements	-	3	43,301	13,213	2,356	-	-	58,873
Deposit from customers	-	781,263	203,041	248,980	463,965	271,049	25,545	1,993,843
Debt securities issued	-	-	3,773	84,166	62,106	37,116	22,900	210,061
Others	-	17,554	21,972	4,560	11,713	8,204	672	64,675
Total liabilities	-	959,385	410,249	583,073	624,415	317,424	49,117	2,943,663
Long/(Short) position	<u>347,510</u>	<u>(696,634)</u>	<u>(137,013)</u>	<u>(248,644)</u>	<u>306,438</u>	<u>369,733</u>	<u>282,657</u>	<u>224,047</u>
Notional amount of derivative financial instruments	-	-	57,795	41,842	90,496	28,668	180	218,981

\* Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk management (continued)**

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative finance liabilities, loan commitments and credit card commitments at the end of the year:

	31 December 2016							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Due to the central bank	187,000	191,049	-	20,384	2,061	168,604	-	-
Deposits from banks and other financial institutions	830,354	838,112	185,240	261,502	235,769	155,458	143	-
Placements from banks and other financial institutions	95,501	96,998	23	24,604	32,904	39,467	-	-
Financial assets sold under repurchase agreements	41,195	41,289	-	34,693	5,836	760	-	-
Deposits from customers	2,120,887	2,188,318	1,082,865	137,719	276,461	411,482	279,788	3
Debt securities issued	412,500	432,330	-	14,560	93,814	281,899	7,080	34,977
Other financial liabilities	43,593	43,771	29,056	8,301	1,263	1,715	2,907	529
Total non-derivative financial liabilities	<u>3,731,030</u>	<u>3,831,867</u>	<u>1,297,184</u>	<u>501,763</u>	<u>648,108</u>	<u>1,059,385</u>	<u>289,918</u>	<u>35,509</u>
<b>Derivative financial liabilities</b>								
Derivative financial instruments settled on net basis		58	-	-	3	(3)	58	-
Derivative financial instruments settled on gross basis								
cash inflow		357,306	-	87,299	55,589	213,782	636	-
cash outflow		(356,541)	-	(87,112)	(55,112)	(213,685)	(632)	-
Total derivative financial liabilities		<u>765</u>	<u>-</u>	<u>187</u>	<u>477</u>	<u>97</u>	<u>4</u>	<u>-</u>
Loan and credit card commitment		<u>158,477</u>	<u>149,358</u>	<u>401</u>	<u>10</u>	<u>1,983</u>	<u>1,071</u>	<u>5,654</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Risk management (continued)**

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative finance liabilities, loan commitments and credit card commitments at the end of the year (continued):

	31 December 2015							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Due to the central bank	14,840	15,087	-	5,084	3,051	6,952	-	-
Deposits from banks and other financial institutions	541,066	547,616	160,954	113,425	215,416	56,612	1,209	-
Placements from banks and other financial institutions	60,305	61,020	23	21,515	16,806	22,676	-	-
Financial assets sold under repurchase agreements	58,873	59,988	3	43,430	13,986	2,569	-	-
Deposits from customers	1,993,843	2,029,534	781,898	203,762	250,881	471,105	292,475	29,413
Debt securities issued	210,061	220,484	-	3,773	85,253	63,719	44,135	23,604
Other financial liabilities	32,672	32,689	13,685	17,609	-	1,278	117	-
Total non-derivative financial liabilities	<u>2,911,660</u>	<u>2,966,418</u>	<u>956,563</u>	<u>408,598</u>	<u>585,393</u>	<u>624,911</u>	<u>337,936</u>	<u>53,017</u>
<b>Derivative financial liabilities</b>								
Derivative financial instruments settled on net basis		(25)	-	2	2	(11)	(18)	-
Derivative financial instruments settled on gross basis								
cash inflow		173,381	-	67,586	37,787	67,088	920	-
cash outflow		(173,072)	-	(67,498)	(37,620)	(67,061)	(893)	-
Total derivative financial liabilities		<u>309</u>	<u>-</u>	<u>88</u>	<u>167</u>	<u>27</u>	<u>27</u>	<u>-</u>
Loan and credit card commitment		<u>128,389</u>	<u>120,728</u>	<u>340</u>	<u>1,417</u>	<u>1,435</u>	<u>1,852</u>	<u>2,617</u>

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **51 Risk management (continued)**

#### **(d) Operational risk**

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;
- A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;
- An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **52 Fair value**

#### **(a) Methods and assumptions for measurement of fair value**

The Group adopts the following methods and assumptions when evaluating fair values:

##### **(i) Debt securities and equity investments**

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the year. The fair values of unlisted equity investments are estimated using the applicable price/earning ratios of comparable listed companies, after adjustment for the specific circumstances of the issuers.

##### **(ii) Receivables and other non-derivative financial assets**

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the year.

##### **(iii) Debt securities issued and other non-derivative financial liabilities**

Fair values of debt securities issued are based on their quoted market prices at the end of the year, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the year.

##### **(iv) Derivative financial instruments**

The fair values of foreign currency forward and swap contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the year, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Reuters' quoted price.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 52 Fair value (continued)

#### (b) Fair value measurement

##### (i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, finance lease receivables, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers, finance lease receivables and debt securities classified as receivables are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Available-for-sale investments and held for trading investments are mostly stated at fair value. The carrying amount and fair value of held-to-maturity investments are disclosed in Note V 21.

##### (ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and subordinated debts issued. Except the bonds issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "Debt securities" classified as held to maturity, and "Bonds issued" not presented at fair value on the statement of financial position.

	As at 31 December			
	Carrying value		Fair value	
	2016	2015	2016	2015
<b>Financial assets</b>				
Debt securities				
- Held to maturity	<u>257,500</u>	<u>152,312</u>	<u>258,891</u>	<u>156,516</u>
<b>Financial liabilities</b>				
Bonds issued	<u>412,500</u>	<u>210,061</u>	<u>409,156</u>	<u>212,054</u>

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **52 Fair value (continued)**

(b) Fair value measurement (continued)

(ii) Financial liabilities (continued)

Fair values of held to maturity debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of issued bonds are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated derivative contracts and structured deposits with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries it best to consider relevant and observable market prices in valuations.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**52 Fair value (continued)**

(c) Fair value hierarchy (continued)

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.



**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**52 Fair value (continued)**

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	31 December 2016			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b>Assets</b>				
<i>Financial assets at fair value through profit or loss</i>				
Held for trading				
- debt instruments	534	7,209	-	7,743
Financial assets designated at fair value through profit or loss	-	43	48	91
<i>Positive fair value of derivatives</i>				
- foreign currency derivatives	-	4,536	-	4,536
- interest rate derivatives	1	398	15	414
<i>Available-for-sale financial assets</i>				
- debt instruments	11,742	226,046	-	237,788
- fund instruments and others	25,500	161,294	-	186,794
- equity instruments	149	-	-	149
<b>Total</b>	<u>37,926</u>	<u>399,526</u>	<u>63</u>	<u>437,515</u>
<b>Liabilities</b>				
<i>Deposits from customers</i>				
Structured deposits designated at fair value through profit or loss				
	-	226,890	-	226,890
<i>Negative fair value of derivatives</i>				
- foreign currency derivatives	-	4,012	-	4,012
- interest rate derivatives	-	330	26	356
<b>Total</b>	<u>-</u>	<u>231,232</u>	<u>26</u>	<u>231,258</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**52 Fair value (continued)**

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2015			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b>Assets</b>				
<i>Financial assets at fair value through profit or loss</i>				
Held for trading				
- debt instruments	102	5,372	-	5,474
Financial assets designated at fair value through profit or loss	-	50	113	163
<i>Positive fair value of derivatives</i>				
- foreign currency derivatives	-	1,248	-	1,248
- interest rate derivatives	-	364	13	377
<i>Available-for-sale financial assets</i>				
- debt instruments	18,735	174,915	-	193,650
- fund instruments and others	28,200	-	-	28,200
- equity instruments	245	-	-	245
<b>Total</b>	<u>47,282</u>	<u>181,949</u>	<u>126</u>	<u>229,357</u>
<b>Liabilities</b>				
<i>Deposits from customers</i>				
Structured deposits designated at fair value through profit or loss				
	-	238,614	-	238,614
<i>Negative fair value of derivatives</i>				
- foreign currency derivatives	-	981	-	981
- interest rate derivatives	-	390	20	410
<b>Total</b>	<u>-</u>	<u>239,985</u>	<u>20</u>	<u>240,005</u>

During the year ended 31 December 2016 and 31 December 2015, there were no significant transfers between instruments in Level 1 and Level 2.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**52 Fair value (continued)**

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movement during the year ended 31 December 2016 in the balance of Level 3 fair value measurements is as follows:

	Financial assets designated at fair value through profit or loss	Derivative financial assets	Total	Derivative financial liabilities	Total
1 January 2016	113	13	126	(20)	(20)
Total gains or losses:					
In profit or loss for the current year	(7)	3	(4)	(6)	(6)
Purchases	5	-	5	-	-
Settlements	(63)	(1)	(64)	-	-
31 December 2016	<u>48</u>	<u>15</u>	<u>63</u>	<u>(26)</u>	<u>(26)</u>
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	<u>(6)</u>	<u>3</u>	<u>(3)</u>	<u>(6)</u>	<u>(6)</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**52 Fair value (continued)**

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movement during the year ended 31 December 2015 in the balance of Level 3 fair value measurements is as follows:

	Financial assets designated at fair value through profit or loss	Derivative financial assets	Total	Derivative financial liabilities	Total
1 January 2015	172	30	202	(21)	(21)
Total gains or losses:					
In profit or loss for the current year	10	(8)	2	1	1
Purchases	7	1	8	-	-
Settlements	(76)	(10)	(86)	-	-
31 December 2015	<u>113</u>	<u>13</u>	<u>126</u>	<u>(20)</u>	<u>(20)</u>
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	<u>9</u>	<u>(7)</u>	<u>2</u>	<u>1</u>	<u>1</u>

During the year ended 31 December 2016 and 31 December 2015, there were no significant transfers into or out of Level 3.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**52 Fair value (continued)**

(c) Fair value hierarchy (continued)

*Financial assets and liabilities not measured at fair value*

The tables below summarise the three levels' fair values of "Debt securities" classified as held to maturity, and "Bonds issued" not presented at fair value on the statement of financial position.

	31 December 2016			Total
	Level 1	Level 2	Level 3	
<b>Financial assets</b>				
Debt securities				
- Held to maturity	4,439	253,061	-	257,500
<b>Financial liabilities</b>				
Bonds issued	-	412,500	-	412,500

	31 December 2015			Total
	Level 1	Level 2	Level 3	
<b>Financial assets</b>				
Debt securities				
- Held to maturity	1,289	151,023	-	152,312
<b>Financial liabilities</b>				
Bonds issued	-	210,061	-	210,061

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily interest derivatives. These financial instruments are valued using cash flow discount model. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2016, the carrying amount of financial instrument valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 53 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statements of financial position.

	31 December <u>2016</u>	31 December <u>2015</u>
Entrusted loans	<u>120,016</u>	<u>98,671</u>
Entrusted funds	<u>120,016</u>	<u>98,671</u>

### 54 Commitments and contingent liabilities

#### (a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card limits, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertaking's by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December <u>2016</u>	31 December <u>2015</u>
Loan commitments		
Original contractual maturity within one year	10,809	9,180
Original contractual maturity more than one year (inclusive)	19,580	24,082
Credit card commitments	<u>128,088</u>	<u>95,127</u>
Sub-total	<u>158,477</u>	<u>128,389</u>
Acceptances	401,420	449,385
Letters of guarantees	81,424	61,704
Letters of credit	60,611	63,069
Guarantees	<u>185</u>	<u>185</u>
Total	<u>702,117</u>	<u>702,732</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**54 Commitments and contingent liabilities (continued)**

(a) Credit commitments (continued)

The Group may be exposed to credit risk in all the above credit businesses. Group management periodically assesses the credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount

	31 December <u>2016</u>	31 December <u>2015</u>
Credit risk-weighted amount of credit commitments	<u>265,689</u>	<u>283,635</u>

The credit risk weighted amount represent to the amount calculated with reference to the guidelines issued by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(c) Operating lease commitments

As at the end of the year, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	31 December <u>2016</u>	31 December <u>2015</u>
Within one year (inclusive)	2,319	2,156
After one year but within two years (inclusive)	2,170	2,036
After two years but within three years (inclusive)	1,863	1,889
After three years but within five years (inclusive)	2,842	2,915
After five years	<u>2,791</u>	<u>3,040</u>
Total	<u>11,985</u>	<u>12,036</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**54 Commitments and contingent liabilities (continued)**

(d) Capital commitments

As at the balance sheet dates, the Group's authorised capital commitments are as follows:

	31 December <u>2016</u>	31 December <u>2015</u>
Contracted for		
- Purchase of property and equipment	1,203	660
Approved but not contracted for		
- Purchase of property and equipment	<u>1,260</u>	<u>1,346</u>
Total	<u><u>2,463</u></u>	<u><u>2,006</u></u>

(e) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 31 December 2016.

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at balance sheet day, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December <u>2016</u>	31 December <u>2015</u>
Redemption commitments	<u>8,308</u>	<u>8,556</u>



**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**54 Commitments and contingent liabilities (continued)**

(f) Forward assets purchase and sale commitments

The Group has unexpired forward purchase and sale commitments as follows:

	31 December <u>2016</u>	31 December <u>2015</u>
Forward assets purchase and sale commitments	550	1,350

(g) Outstanding litigations and disputes

As at 31 December 2016, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB845 million (31 December 2015: RMB967 million). Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsels. The Group considers that the provisions made are reasonable and adequate.

**55 Subsequent Events**

On 1 March 2017, Hong Kong Branch started trading in Hong Kong Exchanges and Clearing Limited upon the successful issuance of an USD500 million offshore bond under the USD2 billion EMTN Program listed in Hong Kong. The three-year Reg S bond provided a coupon of 2.5% and was assigned BBB rating by Fitch Ratings.

On 2 March 2017, the Bank issued a RMB28 billion tier-2 bond in China's interbank bond market. The bond was a ten-year bond with a fixed coupon rate of 4.60% and the Bank, as the issuer, was granted the option to redeem the bond at the fifth year-end.

On 17 March 2017, the Bank issued a RMB30 billion A-share convertible corporate bond. The coupon rates for the six years of the bond duration were 0.2%, 0.5%, 1.0%, 1.5%, 1.8% and 2.0%, respectively, and the coupon payment was made on an annual basis. The commencement date of the conversion period will be 18 September 2017, i.e. the first trading day after six months from the completion of the issuance; and the ending date will be 16 March 2023, i.e. the bond maturity date.

**56 Comparative figures**

Certain comparative figures have been adjusted to conform with changes in presentations in current period.

Unaudited Supplementary Financial Information  
 (Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

**1 Liquidity Coverage Ratio, Liquidity Ratio and Leverage Ratio**

Liquidity Coverage Ratio

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 70%, 80% and 90% by the end of 2015, 2016 and 2017, respectively.

	31 December <u>2016</u>
Liquidity coverage ratio	86.56%
High Quality Liquid Assets	352,296.48
Net cash outflows in 30 days from the end of the year	<u>406,997.37</u>

Liquidity Ratio\*

	As at 31 December <u>2016</u>	Average for The year ended 31 December <u>2016</u>	As at 31 December <u>2015</u>	Average for The year ended 31 December <u>2015</u>
RMB current assets to RMB current liabilities	<u>63.18%</u>	<u>57.92%</u>	<u>54.90%</u>	<u>51.29%</u>
Foreign current assets to foreign current liabilities	<u>78.81%</u>	<u>58.56%</u>	<u>98.87%</u>	<u>91.39%</u>

\* Liquidity ratio is calculated in accordance with the banking level.

Leverage Ratio

	31 December <u>2016</u>
Leverage Ratio	<u>5.44%</u>

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the CBRC and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with PRC GAAP.

Unaudited Supplementary Financial Information (continued)  
 (Expressed in millions of Renminbi, unless otherwise stated)

**2 Currency concentrations**

	31 December 2016			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	101,058	19,617	12,338	133,013
Spot liabilities	(113,114)	(20,347)	(9,884)	(143,345)
Forward purchases	186,248	5,563	7,679	199,490
Forward sales	(171,592)	(1,355)	(10,425)	(183,372)
Net long position	<u>2,600</u>	<u>3,478</u>	<u>(292)</u>	<u>5,786</u>
Net structural position	<u>11</u>	<u>28</u>	<u>8</u>	<u>47</u>
	31 December 2015			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	100,642	10,082	5,567	116,291
Spot liabilities	(94,889)	(16,706)	(16,945)	(128,540)
Forward purchases	83,345	8,598	15,536	107,479
Forward sales	(70,228)	(915)	(3,860)	(75,003)
Net long position	<u>18,870</u>	<u>1,059</u>	<u>298</u>	<u>20,227</u>
Net structural position	<u>11</u>	<u>11</u>	<u>-</u>	<u>22</u>

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong and Seoul branch. Structural assets mainly include fixed assets.

Unaudited Supplementary Financial Information (continued)  
 (Expressed in millions of Renminbi, unless otherwise stated)

**3 International claims**

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, deposits with the central bank, deposits and placements from banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	As at 31 December 2016			
	<u>Banks and other financial institutions</u>	<u>Public sector entities</u>	<u>Others</u>	<u>Total</u>
Asia Pacific excluding mainland China	28,302	355	22,478	51,135
- of which attributed to Hong Kong	15,081	197	19,606	34,884
Europe	1,715	131	12,553	14,399
North and South America	2,812	263	1,629	4,704
<b>Total</b>	<b>32,829</b>	<b>749</b>	<b>36,660</b>	<b>70,238</b>

	As at 31 December 2015			
	<u>Banks and other financial institutions</u>	<u>Public sector entities</u>	<u>Others</u>	<u>Total</u>
Asia Pacific excluding mainland China	5,306	274	36,353	41,933
- of which attributed to Hong Kong	3,257	168	10,945	14,370
Europe	1,523	-	2,313	3,836
North and South America	2,569	162	914	3,645
<b>Total</b>	<b>9,398</b>	<b>436</b>	<b>39,580</b>	<b>49,414</b>

Unaudited Supplementary Financial Information (continued)  
 (Expressed in millions of Renminbi, unless otherwise stated)

**4 Gross amount of overdue loans and advances**

(a) By geographical segments

	31 December <u>2016</u>	31 December <u>2015</u>
Pearl River Delta	9,329	6,803
Yangtze River Delta	6,079	7,912
Western	5,556	6,860
Central	4,895	4,872
Bohai Rim	4,740	4,713
Head Office	3,333	2,305
Northeastern	1,775	1,707
Overseas	8	-
Total	<u>35,715</u>	<u>35,172</u>

(b) By overdue days

	31 December <u>2016</u>	31 December <u>2015</u>
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
- between 3 and 6 months (inclusive)	7,099	8,242
- between 6 months and 1 year (inclusive)	13,781	15,197
- over 1 year	<u>14,835</u>	<u>11,733</u>
Total	<u>35,715</u>	<u>35,172</u>
As a percentage of total gross loans and advances		
- between 3 and 6 months (inclusive)	0.40%	0.54%
- between 6 months and 1 year (inclusive)	0.77%	1.00%
- over 1 year	<u>0.82%</u>	<u>0.78%</u>
Total	<u>1.99%</u>	<u>2.32%</u>

Unaudited Supplementary Financial Information (continued)  
(Expressed in millions of Renminbi, unless otherwise stated)

**4 Gross amount of overdue loans and advances (continued)**

(b) By overdue days (continued)

	31 December <u>2016</u>	31 December <u>2015</u>
Current market value of collateral held against the covered portion of overdue loans and advances	30,004	24,494
Covered portion of overdue loans and advances	18,211	14,589
Uncovered portion of overdue loans and advances	17,504	20,583
Individual impairment allowances made on overdue loans and advances	10,725	9,747

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

**5 Non-bank mainland China exposure**

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. As at 31 December 2016, substantial amounts of the Group's exposures arose from businesses with mainland China entities or individuals.