



郑州银行
BANK OF ZHENGZHOU



2016 年度報告

ANNUAL REPORT



鄭州銀行股份有限公司

BANK OF ZHENGZHOU CO.,LTD.

(於中華人民共和國註冊成立的股份有限公司)

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

股份代號 STOCK CODE: 6196



This annual report is printed on
environment-friendly paper

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* This annual report was prepared in both Chinese and English versions. Where there is discrepancy between the Chinese and English version, the Chinese version shall prevail.

CHAPTER I CORPORATE INFORMATION

1 BASIC INFORMATION

Legal name in Chinese:	鄭州銀行股份有限公司 ¹ (Abbreviation: 鄭州銀行)
Legal name in English:	Bank of Zhengzhou Co., Ltd. ¹ (Abbreviation: ZHENGZHOU BANK)
Legal representative:	Mr. Wang Tianyu
Authorised representatives:	Mr. Wang Tianyu, Mr. Fu Chunqiao
Board secretary:	Mr. Fu Chunqiao
Joint company secretaries:	Mr. Fu Chunqiao, Ms. Leung Wing Han Sharon
Stock exchange on which H Shares are listed:	The Stock Exchange of Hong Kong Limited
Stock abbreviation and stock code:	Stock abbreviation: ZHENGZHOU BANK Stock code: 6196
Unified Social Credit Code:	914100001699995779
Financial licence number:	B1036H241010001
Registered address and office address:	22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, China
Principal place of business in Hong Kong:	18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
Contact address:	22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, China
Tel:	+86-371-67009199
Fax :	+86-371-67009898
E-mail:	ir@zzbank.cn
Website:	www.zzbank.cn
Auditor:	KPMG
PRC legal advisor:	King & Wood Mallesons (Beijing)
Hong Kong legal advisor:	King & Wood Mallesons
Compliance advisor:	BOCOM International (Asia) Limited
H Share Registrar:	Computershare Hong Kong Investor Services Limited
Trustee agency for Domestic Shares:	China Securities Depository and Clearing Corporation Limited

¹ The Bank is not an authorised institution within the meaning of the Banking Ordinance (Chapter 155 of the laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorised to carry on relevant banking/deposit-taking business in Hong Kong.

CHAPTER I CORPORATE INFORMATION (Continued)

2 COMPANY PROFILE

The Bank of Zhengzhou is a regional joint stock commercial bank incorporated in November 1996 upon the approval by the People's Bank of China, based on 48 city credit cooperatives in Zhengzhou City. The Bank was renamed as Zhengzhou Commercial Bank Co., Ltd. in February 2000 and Bank of Zhengzhou Co., Ltd. in December 2009. The Bank was listed on the main board of Hong Kong Stock Exchange in December 2015, which was the first listed city commercial bank in Henan Province and the tenth in China. Under its market positioning strategy of "commerce and logistics bank, financing expert for small and medium enterprises and boutique banking for residents", the Bank of Zhengzhou has long been focusing on the area of small and micro enterprises, serving the real economy and adhering to the development path with uniqueness and differentiation with the value proposition of "Being a good financial service partner of Small And Middle Enterprise ("**SME**") and the brand idea of "serve with heart", leading to consistent historic breakthroughs in each of its business line and a significant enhancement of its competitive edge and comprehensive strength. As present, the Bank has established Jiuding Financial Leasing Company (九鼎金融租賃公司) and 4 county banks at Zhongmu, Xinmi, Yanlin and Fugou as well as acquired Xinzheng Jingu County Bank (新鄭金穀村鎮銀行) and its comprehensive business operation has proceeded steadily.

As of 31 December 2016, the Bank had 3,773 employees and 132 branches in which 10 were located inside Henan Province. With its assets scale amounted to RMB366.148 billion, deposits balance amounted to RMB216.390 billion, loan balance amounted to RMB111.092 billion and its capital adequacy ratio of 11.76%, non-performing loan rate of 1.31% and allowance to non-performing loans of 237.38%, the Bank's major financial indicators have met all the regulatory requirements.

The Bank's operating and management ability continues to improve, receiving wide recognition from various sectors of the community. In the list of "Top 1000 World Banks 2015", the Bank ranked the 337th and 327th on Tier-1 capital and assets scale respectively, representing 102 and 49 places up year-on-year. In the Rank of Competitiveness of 2016 PRC Commercial Banks published by the Chinese magazine The Banker, the Bank ranked "No. 2 Among All City Commercial Banks With Assets RMB200–300 Billion in 2015 On Competitiveness". According to the "Top 40 Value-Creating Banks in China" issued by McKinsey, the Risk Adjusted Return on Capital ("**RAROC**") of the Bank in 2015 ranked third among the domestic banks. With its outstanding results and market performance, the Bank was awarded as the "Best Investment Value Award for Listed Companies" in the "China Securities Golden Bauhinia Awards" co-organised by Ta Kung Pao and several renowned institutions in mainland China.

3 MAJOR AWARDS IN 2016

In January 2016, the Bank was awarded as one of the “Outstanding Dealers in China’s Bond Market” in the selection of Outstanding Members in China’s Bond Market in 2015 organized by China Central Depository & Clearing Co. Ltd..

In April 2016, the Bank won the “Best City Commercial Bank Award” and “Most Influential Marketing Award” at the Local Currency Interbank Conference organized by National Interbank Funding Centre.

In May 2016, the Bank was honoured with “the Best Financial Innovation Award” in “Financial Innovation Award in China” co-organized by the Chinese magazine The Banker, Central Television, the Financial Research Institute of the Chinese Academy of Social Sciences and Internet Economic Research Institute of Central University of Finance and Economics in which our “Loans guaranteed by insurance”, “Golden Parasol” and “Ding Rong Yi” won “Top Ten Financial Product Innovation” award, “Top Ten Wealth Management Innovations” award and “Top Ten Internet Finance Innovation” award respectively.

In September 2016, the Bank ranked “No. 2 Among All City Commercial Banks With Assets RMB200–300 Billion in 2015 On Competitiveness” in the Rank of Competitiveness of PRC Commercial Banks published by the Chinese magazine The Banker.

In November 2016, the universal payment solution of the Bank was honoured with “Chinese Financial Brand Bauhinia Awards – Innovation Internet Financial Product” in the “Tsinghua Financial Technology Forum” organised by Tsinghua University School of Economics and Management.

In December 2016, the Bank was awarded as the “Best Investment Value Award for Listed Companies” in the “China Securities Golden Bauhinia Awards” co-organised by institutions such as Ta Kung Pao.

CHAPTER II HIGHLIGHTS OF ACCOUNTING DATA AND MAJOR FINANCIAL INDICATORS

The financial information of the Bank set forth in this annual report is prepared on a combined basis in accordance with International Financial Reporting Standards (“IFRS”). Unless otherwise stated, such information is the data of the Bank and its subsidiaries (collectively the “Group”) denominated in RMB.

In respect of the financial statements of the Bank prepared under the PRC GAAP (China Accounting Standards) and IFRS, there is no difference between the net profit attributable to shareholders for the year ended December 31, 2016 and net profit attributable to shareholders as at the end of the Reporting Period.

	2016	For the year ended December 31,				
		Year-on-year change between				
		2015	2016 and 2015	2014	2013	2012
(Expressed in millions of Renminbi, unless otherwise stated)						
Operating Results		Rate of change (%)				
Net interest income	8,300	6,906	20.19	5,284	4,102	3,190
Net fee and commission income	1,215	713	70.41	348	162	62
Operating income	9,981	7,861	26.97	5,505	4,257	3,578
Operating expenses	(2,435)	(2,252)	8.13	(1,842)	(1,386)	(1,342)
Impairment losses on assets	(2,346)	(1,298)	80.74	(497)	(400)	(328)
Profit before taxation	5,257	4,362	20.52	3,203	2,507	1,923
Net profit	4,045	3,356	20.53	2,463	1,902	1,460
Net profit attributable to equity shareholders of the Bank	3,999	3,357	19.12	2,463	1,902	1,460
Calculated on a per share basis (RMB)		Rate of change (%)				
Net asset per share attributable to shareholders of the Bank	4.00	3.46	15.61	2.89	2.42	1.95
Earnings per share	0.75	0.85	(11.76)	0.62	0.48	0.37
Profitability Indicators (%)		Change				
Return on average total assets ⁽¹⁾	1.28	1.43	(0.15)	1.39	1.50	1.67
Return on average equity ⁽²⁾	20.46	22.99	(2.53)	23.52	22.10	21.04
Net interest spread ⁽³⁾	2.52	2.95	(0.43)	3.07	3.30	3.99
Net interest margin ⁽⁴⁾	2.69	3.12	(0.43)	3.31	3.50	4.00
Net fee and commission income to operating income	12.17	9.07	3.10	6.32	3.81	1.74
Cost-to-income ratio ⁽⁵⁾	22.26	23.27	(1.01)	27.72	27.06	32.89

CHAPTER II HIGHLIGHTS OF ACCOUNTING DATA AND MAJOR FINANCIAL INDICATORS (continued)

		For the year ended December 31,				
		Year-on-year change between				
	2016	2015	2016 and 2015	2014	2013	2012
(Expressed in millions of Renminbi, unless otherwise stated)						
Capital adequacy ratio indicators ⁽⁶⁾ (%)			Change			
Calculated based on Capital Administrative Measures						
Core Tier-one capital adequacy ratio	8.79	10.09	(1.30)	8.66	10.28	N/A
Tier-one capital adequacy ratio	8.80	10.09	(1.29)	8.66	10.28	N/A
Capital adequacy ratio	11.76	12.20	(0.44)	11.12	12.08	N/A
Calculated based on Capital Adequacy Measures						
Core capital adequacy ratio	N/A	N/A	N/A	N/A	N/A	12.79
Capital adequacy ratio	N/A	N/A	N/A	N/A	N/A	15.26
Total equity to total assets	5.97	6.71	(0.74)	5.58	6.39	7.40
Asset quality indicators (%)			Change			
Non-performing loan ratio ⁽⁷⁾	1.31	1.10	0.21	0.75	0.53	0.47
Allowance to non-performing loans ⁽⁸⁾	237.38	258.55	(21.17)	301.66	425.54	425.28
Allowance to total loans ⁽⁹⁾	3.11	2.85	0.26	2.26	2.24	2.01
Other indicator (%)			Change			
Loan-to-deposit ratio	51.34	55.73	(4.39)	58.83	61.65	67.19
Scale indicators			Rate of change (%)			
Total assets	366,148	265,623	37.84	204,289	149,334	103,734
Of which: Net loans and advances	107,633	91,604	17.50	76,226	61,536	49,153
Total liabilities	344,287	247,799	38.94	192,884	139,798	96,063
Of which: Deposits from customers	216,390	169,195	27.89	132,561	102,097	74,654
Share capital	5,322	5,142	3.50	3,942	3,942	3,942
Equity attributable to equity shareholders of the Bank	21,296	17,795	19.67	11,405	9,536	7,671
Non-controlling interests	565	29	1,848.28	—	—	—
Total equity	21,861	17,824	22.65	11,405	9,536	7,671

CHAPTER II HIGHLIGHTS OF ACCOUNTING DATA AND MAJOR FINANCIAL INDICATORS (Continued)

Notes:

- (1) Calculated by dividing net profit for the period by average balance of total assets at the beginning and the end of the period.
- (2) Calculated by dividing net profit attributable to equity shareholders of the Bank for the period by average balance of total equity attributable to equity shareholders of the Bank at the beginning and the end of the period.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, calculated based on daily average of the interest-earning assets and the interest-bearing liabilities.
- (4) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.
- (5) Calculated by dividing total operating expenses (excluding tax and surcharges) by operating income.
- (6) The China Banking Regulatory Commission (the “**CBRC**”) published the Capital Administrative Measures on June 7, 2012, which became effective on January 1, 2013 and replaced the Capital Adequacy Measures.
- (7) Calculated by dividing total non-performing loans by gross loans and advances to customers.
- (8) Calculated by dividing allowance for impairment losses on loans to customers by total non-performing loans.
- (9) Calculated by dividing allowance for impairment losses on loans to customers by gross loans and advances to customers.

CHAPTER III CHAIRMAN'S STATEMENT

In 2016, the global economy continued its consolidation along with frequent risk incidents and uneven growth among major economies. The Chinese economy expanded at a moderate but steady pace in the accelerated process of economic restructuring and increasing financial disintermediation. Facing increasingly complex economic and financial environment and intensified market competition, the Board of the Bank, under the great support of shareholders, continued to closely focus on its three business positioning with resolute strategic willpower and, at the same time, proactively adapted to the changing environment to seize development opportunities. Under the leadership of the Board, the entire staff unswervingly forged ahead, tackled tough and made great efforts to achieve great progress in both business development and corporate governance.

Splendid results were achieved with innovative efforts. In 2016, leveraging on the opportunities of the market-oriented reform, the Bank accelerated its business innovation and transformation and continued to strengthen its overall risk control system, bringing continuous growth in asset scale, significant increase in deposit and steady improvement in profitability. As at 31 December 2016, the Bank's asset scale reached RMB366.148 billion, deposit balance was RMB216.390 billion and loan balance was RMB111.092 billion, ranking No. 1 in the local banking system in terms of deposit scale. In 2016, the Bank realised net profits of RMB4.045 billion, with an average total return on assets (ROA) of 1.28% and an average return on equity (ROE) of 20.46%. Meanwhile, the Bank stayed committed to prudent operations and registered a capital adequacy ratio at 11.76%, provision coverage ratio at 237.38% and the annual non-performing loan (NPL) ratio at 1.31%, maintaining pretty level in major regulatory indicators.

Steady progress was made with consistent strategies. 2016 marked the beginning of the Bank's 2016–2020 Five-Year Plan and it was also a year in which we gained excellent results in operations and achieved a great leap forward in business development. In 2016, the Bank made solid progress in comprehensive business operations, represented by Jiuding Financial Leasing Company (九鼎金融租賃公司) established by the Bank commencing operation and increase in number of county banks of the Bank by the acquisition of Xinzheng Jingu County Bank (新鄭金穀村鎮銀行); further expanded its fund raising channels by timely launching the application for listing of its A Shares which was accepted by the CSRC, and successfully issuing its Phase I Tier II Capital Bonds amounting RMB3 billion during the year; enhanced its application on business qualifications and obtained the business qualifications for asset securitisation, Class B lead underwriter and open-end wealth management, which further accelerated its pace towards new business and products; further expanded its network to cover the whole province by facilitating the setup of its outlets, such as setting up the Puyang Branch and Pingdingshan Branch.

The Bank committed to enhancing its corporate value despite challenges. In 2016, notwithstanding increasing market competition, the Bank has improved its market value by proactively adapting to the changing environment and seizing development opportunities. In the Rank of Competitiveness of PRC Commercial Banks published by a Chinese magazine The Banker, the Bank ranked No. 2 among all city commercial banks with assets of RMB200–300 Billion in 2016 in terms of competitiveness. According to the Top 40 Value-Creating Banks in China issued by McKinsey, the RAROC of the Bank ranked 3rd and 1st among the domestic banks and domestic city commercial banks, respectively. The Bank ranked the 67th in Asian Bank Competitiveness Rankings issued by 21st Century Business Herald and took the 29th place among domestic commercial banks. Meanwhile, the Bank was honoured with "Best Investment Value Award for Listed Companies" in the China Securities Golden Bauhinia Awards co-organised by Ta Kung Pao and other institutions.

As we celebrate our past achievements, we look toward to an even brighter future. In 2017, the Bank will forge ahead persistently towards its three business positionings of "providing financial services for the commercial sector, small and micro enterprises and citizens (商貿金融、小微金融、市民金融)", push forward its innovative efforts and cultivate its core competitiveness. Meanwhile, the Bank will also pay attention to compliance and risk management and grow prudently and steadily so as to deliver better results and reward our shareholders, investors and other stakeholders for their trust and support.

Wang Tianyu
Chairman

CHAPTER IV PRESIDENT'S STATEMENT

In 2016, amidst a complex economic environment, the Bank strictly followed the national economic development strategies and applicable regulatory requirements and worked towards its three business positionings of “providing financial services for the commercial sector, small and micro enterprises and citizens”. At the same time, the Bank continued to push forward various reforms and innovation and further improve its competitive advantage under the overall strategy of “reinforcing the foundation, strengthening management, building a strong headquarters and promoting transformation”, achieving a great leap forward in business development and gaining excellent results in operations.

2016 marked a year of big strides forward for the business. Apart from the application for listing of its A shares of the Bank accepted by the CSRC, the Bank successfully issued its Phase I Tier II Capital Bonds of RMB3 billion in 2016, the proceeds from which were used to increase the tier 2 capital of the Bank. Tangible progress was made in comprehensive business operations as Jiuding Financial Leasing Company commenced operation. The Bank obtained the business qualifications for asset securitisation, Class B lead underwriter and open-end wealth management. Besides, the Bank further expanded its network towards covering the whole province by establishing the Puyang Branch and Pingdingshan Branch as well as acquiring the Xinzheng Jingu Rural Bank. In 2016, the Bank saw growth in its key indicators, including assets, deposits and profit hit a record high. As at the end of 2016, the Bank's asset scale increased by RMB100.525 billion or 37.84% to RMB366.148 billion from the beginning of the year; deposit balance increased by RMB47.195 billion or 27.89% to RMB216.390 billion from the beginning of the year; loan balance rose by RMB16.798 billion or 17.81% to RMB111.092 billion from the beginning of the year; and net profits increased by RMB689 million or 20.53% to RMB4.045 billion year-on-year. The capital adequacy ratio was 11.76%, the NPL ratio was 1.31% and the provision coverage ratio was 237.38%.

Besides, it has been a year of improvement in quality and efficiency. The Bank steadily implemented various reforms on business development and management by establishing the equity investment management department and the internet finance department as well as 12 special centres for innovation, investment banking, consumer finance, trade logistics and consolidated statement management of the Group. Meanwhile, the Bank continued to pursue innovation in small and micro enterprise financing, corporate business, bank card business, internet finance and e-payment channels. In particular, the Bank successfully issued its trade finance asset-backed securities, which was the first of its kind issued by a bank on the Shanghai Stock Exchange and was unprecedented among domestic city commercial banks.

This year also witnessed our commitment to prudent operations. In compliance with regulatory requirements, the Bank strictly followed the “30 Prohibitions (三十個嚴禁)” and conducted reviews of “Two Enhancements, Two Containments (兩加強、兩遏制)”. It proactively adjusted its credit structure by reducing the loans granted to industries featuring heavy pollution, large energy consumption and over-capacity as well as high risk clients, and reinforced its management and control of non-performing loans. Meanwhile, the Bank dedicated more efforts to daily supervision and inspection, special examinations of business and special audits, and organised self-examination of various activities to improve weak-points and prevent hidden risks. The Bank had no material non-compliance during the year, maintaining sound and steady development.

All these remarkable results would not have been possible without the ongoing support of our shareholders, investors and stakeholders, which inspires us to keep moving forward. The year 2017, which is the second year of the current Five-Year Plan, will be a crucial year for the Bank to apply for the listing of its A shares and foreseeable progress towards its three business positionings of “providing financial services for the commercial sector, small and micro enterprises and citizens”. Focusing on these business positionings and leveraging on innovation, the Bank will strive to improve its weak-points, reinforce its risk control and enhance its core competitiveness so as to open a new era of innovation and success!

Shen Xueqing
President

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS

1 PAST ECONOMY AND ENVIRONMENT AND FUTURE PROSPECTS

In 2016, faced with the complicated economic environment at home and abroad, the PRC government maintained a general stable national economy while making progress and adhering to new development concept, moderately expanded the overall demand and firmly accelerated the progress of reforms, with structural reforms on the supply side as the focus of development, to properly cope with challenges and risks and lead optimistic social prospects, so that the national economy developed slowly, steadily and healthily. In 2016, the gross domestic product (GDP) reached RMB74,412.7 billion, up by 6.7% year on year, and fixed asset investment (excluding farmers) reached RMB59,650.1 billion, with a year-on-year nominal growth of 8.1%, consumer price index (CPI) increased by 2.0% as compared with that of the previous year, and producer price index for industrial products (PPI) decreased by 1.4% as compared with that of the previous year. At the end of December 2016, the balance of broad money (M2) amounted to RMB155.01 trillion with a year-on-year growth of 11.3%, the balance of narrow money (M1) amounted to RMB48.66 trillion with a year-on-year growth of 21.4% and the balance of cash in circulation (M0) amounted to RMB6.83 trillion with a year-on-year growth of 8.1%. At the end of 2016, the total asset dominated in RMB and foreign currencies of the domestic financial institutes in the banking industry reached RMB232.25 trillion with a year-on-year growth of 15.8%, representing a rise of 0.13 percentage points as compared with the previous year in terms of growth rate; the balances of deposit and loan steadily increased with loans dominated in RMB and foreign currencies amounting to RMB112.06 trillion, up by 12.79% as compared with the beginning of the year; the balances of deposit dominated in RMB and foreign currencies reached RMB155.52 trillion, with an increase of 11.27% as compared with the beginning of the year; the asset quality was generally stable with the non-performing loan ratio of commercial banks reaching 1.74%, representing an increase of 0.07 percentage points as compared with the end of previous year; the commercial banks achieved net profit of RMB1.65 trillion with a year-on-year growth of 3.54%; average profit margins of assets and average profit margins of capital was 0.98% and 13.38% respectively, keeping flat with previous year; the systematic risk of banking industry was manageable due to the continued enhancement of risk resistance ability, evidenced by the facts that the provision coverage ratio of commercial banks was 176.40%, the provision ratio of loans was 3.08%, and the capital adequacy ratio was 13.28%, all of which kept basically unchanged with previous year.

In 2016, Henan Province of the PRC, where the Bank is located, continued to reinforce the structural reforms on the supply side and focused on steady growth, structure adjustment, reform motivation and public welfare, risk resistance, to maintain an overall stable economic development and continuous progress of structural adjustment and transition of drivers for the province, adhering to new development concepts. According to the preliminary statistics, GDP in the whole province reached RMB4,016.001 billion with a year-on-year growth of 8.1%, which was 1.4 percentage points higher than the national average level. The value added output of industrial enterprises above designated size of the province increased by 8.0%, which was 2.0 percentage points higher than the national level. Fixed asset investment reached RMB3,975.393 billion, with a year-on-year growth of 13.7% and 5.6 percentage points higher than the national growth rate. The general level of consumer prices in the province recorded a year-on-year increase of 1.9%. In 2016, the banking industry of Henan Province maintained favorable growth, with its deposits recording an increase of RMB669.76 billion or 13.9% as compared with the beginning of the year, which was 2.57 percentage points higher than the national level; its loans recorded an increase of RMB534.1 billion or 16.8% as compared with the beginning of the year, which was 4 percentage points higher than the national level; its NPL ratio was 2.87%, decreasing by 0.14 percentage points as compared with the beginning of the year.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In 2017, the global economy will still be unoptimistic, resulted by inadequate new momentum and various uncertainties for economic development. With the steady progress of structural reforms on the supply side, as well as transformation and upgrading, new momentum will emerge. With the gradual improvement of the quality of economy, the domestic economy is expected to maintain a general tone of making progress with stable growth. However, the economy will face many difficulties and challenges. The economic growth will be stable but on a shaky foundation. Meanwhile, in face with accelerating market-oriented financial reform, interest rate liberalization, and intensifying financial disintermediation, the banking industry will face ever fiercer competition.

In 2017, the Bank will focus on reinforcing its weakness and facilitate innovation, with the three features of “providing financial services for commercial sector, small and micro enterprises and citizens” as main goals, and continue to consolidate and expand market share, so as to improve its core competitiveness. The Bank will create new business highlands and promote transformation development by breaking through the traditional business mode and focusing on light assets, low capital consumption, low cost and quick turnaround. It will pay attention to credit risk prevention and control by enhancing risk management, making a firm development foundation and continuing to strengthen audit to prevent all kinds of risks.

2 OVERALL OPERATION OVERVIEW

In 2016, faced with increasingly complicated economic and financial situations, Bank of Zhengzhou made great achievements and advanced steadily by resisting pressure and working in a pragmatic, responsible and enterprising way.

The major operation indicators breaking another record. In 2016, operation indicators of the Bank continued to grow rapidly, while increments of main indicators such as assets, deposits and profits all reached record high. As at the end of 2016, the Bank's asset scale was RMB366.148 billion, increasing by RMB100.525 billion or 37.84% from the beginning of the year; deposit balance was RMB216.390 billion, increasing by RMB47.195 billion or 27.89% from the beginning of the year; loan balance was RMB111.092 billion, increasing by RMB16.798 billion or 17.81% from the beginning of the year; net profits was RMB4.045 billion, increasing by RMB689 million or 20.53% year-on-year. The capital adequacy ratio was 11.76%, the NPL ratio was 1.31% and the provision coverage ratio was 237.38%. Major regulatory indicators met regulatory requirements.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The Bank actively promoting the “three featured positions”. In 2016, the Bank focused on “providing financial services for commercial sector, small and micro enterprises and citizens” by careful planning and orderly promotion, resulting in great achievements. In terms of **financial services for commercial sector**, the Bank hired famous consulting agencies for construction and planning; it developed products such as “Baofu Pay (保付通)” and “Full-circulation Pay (全流通)”, and constantly strengthened in-depth cooperation with strategic customers, getting 85 new logistics customers; launched trade finance asset-backed securities, future foreign exchange settlement, proprietary forfaiting, “For-free Installment (免費供)” and other products, with government factoring, forfaiting selling and purchasing and “Mutual-benefit Connect (互匯通)” constantly generating benefit, driving the rapid growth of trade financing; as at the end of 2016, the balance of trade finance reached RMB39.8 billion, increasing by RMB19.7 billion from the beginning of the year, doubling year-on-year. As for the **financial services for small and micro enterprises**, the Bank improved the mechanism of financial management for small and micro enterprises, and optimized the mass marketing business model, to promote professional and efficient development; 38 new risk control models were established, while products of logistics flow loans, point-of-sale (POS) flow loans and taxation-linked loans were launched; consumer finance loans were promoted and increased by RMB2.1 billion, with a year-on-year growth of 44.5%; brand conferences themed by “Easy Disbursement (簡單派)” and “Pleasant Life (樂生活)” were held, to introduce the mascot “Tiny Pai (派點點)” for “Easy Disbursement”; the Bank accelerated brand construction, embodying “simplicity is not simple, and finance for micro is not micro (簡單派不簡單、小金融大作為)”. As at the end of 2016, the Bank met the indicators of “Three Maximum Thresholds” for small and micro loans for 6 years successively. In respect of the **financial services for citizens**, the Bank formulated the first systematic bank development plan for citizens, offering featured cards of “all-in-one-card for citizens (市民一卡通)”, Fangyuan Logistics Card (方圓物流卡), Readers’ Card (書香卡) and Zheshang Card (浙商通), etc., and expanding applications of IC cards; the Bank launched new products of personal certificates of deposits and “Huideli (惠得利)” series, so as to improve mass marketing participation; it continued to expand the talent pool for retail managers by holding wealth management training and competitions and optimizing evaluation for the retail team, thus initially establishing a young, energetic and professional retail team. As at the end of 2016, the balance of deposits reached RMB60.827 billion, increasing by RMB13.745 billion or 29.19% from the beginning of the year; the number of issued credit cards reached more than 60,000, with a revenue of RMB34 million.

The strategic task showing new highlights. The Bank’s application for initial public offering of A shares was pending for approval by CSRC, marking the Bank’s first step onto the A-share market; the Bank successfully issued first tranche of tier-two capital bonds of RMB3 billion, the proceeds of which were all used as our tier-two capital; Jiuding Financial Leasing Company, a subsidiary of the Bank, commenced operation, while Zhongmu Zhengyin Country Bank Co., Ltd., filed notice to the CSRC for listing on the national equities exchange and quotations and was expected to become Henan Province’s first corporation bank on the national equities exchange and quotations; the Bank successfully acquired Xingzheng Jingu Rural Bank Co., Ltd., becoming the first bank to conduct mergers and acquisitions in Henan Province.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3 ANALYSIS OF INCOME STATEMENT

For the year ended December 31,				
	2016	2015	Change	Rate of change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Interest income	15,057	12,664	2,393	18.90
Interest expense	(6,757)	(5,758)	(999)	17.35
Net interest income	8,300	6,906	1,394	20.19
Fee and commission income	1,260	745	515	69.13
Fee and commission expense	(45)	(32)	(13)	40.63
Net fee and commission income	1,215	713	502	70.41
Net trading gains	79	127	(48)	(37.80)
Net gains arising from investments	208	27	181	670.37
Other operating income	179	88	91	103.41
Operating income	9,981	7,861	2,120	26.97
Operating expenses	(2,435)	(2,252)	(183)	8.13
Impairment losses on assets	(2,346)	(1,298)	(1,048)	80.74
Operating profit	5,200	4,311	889	20.62
Share of profits of associates	57	51	6	11.76
Profit before taxation	5,257	4,362	895	20.52
Income tax expense	(1,212)	(1,006)	(206)	20.48
Net profit for the year				
Net profit attributable to	4,045	3,356	689	20.53
Equity shareholders of the Bank	3,999	3,357	642	19.12
Non-controlling interests	46	(1)	47	4,700

In 2016, the Bank recorded profit before taxation and net profit of RMB5,257 million and RMB4,045 million, representing an increase of 20.52% and 20.53% as compared to the same period last year, respectively.

3.1 Net Interest Income, Net Interest Spread and Net Interest Margin

In 2016, the Bank recorded net interest income of RMB8,300 million, representing an increase of RMB1,394 million or 20.19% as compared to the same period last year. Among this, a net interest income growth of RMB2,591 million was attributable to the expansion of the Bank's business scale and a decline in net interest income of RMB1,197 million was attributable to the changes in yield or cost rate.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following tables set forth, for the periods indicated, the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost of these interest-bearing liabilities.

	For the year ended December 31,					
	Average balance ⁽⁶⁾	2016 Interest income	Average yield (%)	Average balance ⁽⁶⁾	2015 Interest income	Average yield (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>						
Interest-earning assets						
Loans and advances to customers	104,144	6,176	5.93	86,791	6,163	7.10
Investment securities and other financial assets ⁽¹⁾	153,949	7,822	5.08	96,010	5,764	6.00
Deposits with central bank	27,118	417	1.54	25,627	397	1.55
Amounts due from banks and other financial institutions ⁽²⁾	21,670	522	2.41	12,631	340	2.69
Finance lease receivables	2,013	120	5.96	–	–	–
Total interest-earning assets	308,894	15,057	4.87	221,059	12,664	5.73
Interest-bearing liabilities						
Deposits from customers	189,885	3,590	1.89	145,677	3,196	2.19
Amounts due to banks and other financial institutions ⁽³⁾	61,464	1,892	3.08	43,532	1,814	4.17
Debt securities issued	36,161	1,274	3.52	17,622	748	4.24
Amounts due to central bank	31	0.55	1.77	–	–	N/A
Total interest-bearing liabilities	287,541	6,757	2.35	206,831	5,758	2.78
Net interest income		8,300		–	6,906	–
Net interest spread ⁽⁴⁾			2.52			2.95
Net interest margin ⁽⁵⁾			2.69			3.12

Notes:

- (1) Consists of our financial assets at fair value through profit or loss for the current period, available-for-sale financial assets, held-to-maturity investments, and financial investments classified as loans and receivables.
- (2) Consists of deposits and placements with banks and other financial institutions and financial assets held under resale agreements.
- (3) Consist of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average balance of total interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated as the average of the daily balances.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table sets out, for the periods indicated, the changes in the Bank's interest income and interest expense attributable to changes in volume and rate. Changes in volume are measured by changes in the average balances of the Bank's interest-earning assets and interest-bearing liabilities and changes in rate are measured by changes in the average rate of the Bank's interest-earning assets and interest-bearing liabilities. Effects of changes caused by both volume and rate have been allocated to changes in rate.

For the year ended December 31 2016 vs. 2015			
	Increase/(decrease) due to Volume ⁽¹⁾	Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
<i>(Expressed in millions of RMB)</i>			
Interest-earning assets			
Loans and advances to customers	1,232	(1,219)	13
Investment securities and other financial assets	3,478	(1,420)	2,058
Deposits with central bank	23	(3)	20
Amounts due from banks and other financial institutions	243	(61)	182
Finance lease receivables	120	–	120
Changes in interest income	5,096	(2,703)	2,393
Interest-bearing liabilities			
Deposits from customers	970	(576)	394
Amounts due to banks and other financial institutions	747	(669)	78
Debt securities issued	787	(261)	526
Amounts due to central bank	1	–	1
Change in interest expense	2,505	(1,506)	999

Notes:

- (1) Represents the daily average balance for the year minus the daily average balance for the previous year, multiplied by the average yield/cost for the previous year.
- (2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the daily average balance for the year.
- (3) Represents interest income/expense for the year minus interest income/expense for the previous year.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.2 Interest Income

In 2016, the Bank's interest income increased by RMB2,393 million or 18.90% to RMB15,057 million as compared to the same period last year, which was primarily attributable to (i) the increase in the volume of investment securities and other financial assets, (ii) the increase in the volume due from banks and other financial institutions, (iii) the increase in the volume for loans and advances to customers.

3.2.1 Interest income from loans and advances to customers

In 2016, interest income from loans and advances to customers of the Bank increased by RMB13 million or 0.21% to RMB6,176 million as compared to the same period last year, primarily as a result of the increase in average balance of loans and advances to customers. The Bank closely focused on three featured positions of providing financial services for "commercial sector", "small and micro enterprises" and "citizens" and stronger support on loan marketing. The overall growth of loan business was promoted against the backdrop of economic downturn and decline in effective demand.

The following table sets out, for the periods indicated, the average balance, interest income and average yield for each component of the Bank's loans and advances to customers.

	2016			2015		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
(Expressed in millions of Renminbi, unless otherwise stated)						
Corporate loans	73,995	4,561	6.16	59,117	4,281	7.24
Personal loans	22,979	1,398	6.08	22,698	1,639	7.22
Discounted bills	7,170	217	3.03	4,976	243	4.88
Total loans and advances to customers	104,144	6,176	5.93	86,791	6,163	7.10

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.2.2 Interest income from investment securities and other financial assets

In 2016, interest income from investment in securities and other financial assets of the Bank increased by RMB2,058 million or 35.70% to RMB7,822 million as compared to the same period last year, principally attributable to the increase in average balance of investment in securities and other financial assets. The increase in the average balance of investment in securities and other financial assets was primarily attributable to the increase in holding of investment products under trust schemes and investment products managed by securities companies, which had higher yield. The decline in average yield was attributable to the fluctuation of market interest rate.

3.2.3 Interest income from balances with central bank

In 2016, interest income from balances with central bank of the Bank increased by RMB20 million or 5.04% to RMB417 million as compared with the same period last year, primarily attributable to the increase in the average balance of cash and balances with central bank year by year, and among which, primarily due to the increase in statutory deposit reserve along with the growth of deposits from customers.

3.2.4 Interest income from amounts due from banks and other financial institutions

In 2016, interest income from amounts due from banks and other financial institutions of the Bank increased by RMB182 million or 53.53% to RMB522 million as compared with the same period last year, primarily attributable to the increase in the average balance and the decline in average yield. The increase in the average balance of these assets was primarily attributable to the increase in the amounts due from banks and other financial institutions, whereas the change in average yield was primarily attributable to the decline in market interest rate.

3.2.5 Interest income from finance lease receivables

In 2016, interest income from finance lease receivables increased by RMB120 million or 100.00% to RMB120 million as compared with the same period last year, primarily attributable to the establishment of a subsidiary, Jiuding Financial Leasing Company, by the Bank on 23 March 2016.

3.3 Interest Expense

In 2016, the Bank's interest expense increased by RMB999 million or 17.35% to RMB6,757 million as compared to the same period last year, primarily attributable to (i) the increase in the volume of deposits from customers, (ii) the increase in the volume of amounts due to banks and other financial institutions, (iii) the increase in the volume of debt securities issued.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.3.1 Interest expense on deposits from customers

In 2016, the Bank's interest expense on deposits from customers increased by RMB394 million or 12.33% to RMB3,590 million as compared to the same period last year, primarily attributable to the continuous growth of the Bank's deposit business and the increase in the proportion of term deposits. The growth of average balance of total deposits from customers primarily reflects the overall business growth and the expansion of branch network of the Bank, while the decline in the average cost of deposits from customers were primarily attributable to the decline in market interest rate.

For the year ended December 31,						
	2016			2015		
	Average balance	Interest expense	Average cost rate (%)	Average balance	Interest expense	Average cost rate (%)
(Expressed in millions of Renminbi, unless otherwise stated)						
Corporate deposits						
Demand	65,459	336	0.51	51,137	277	0.54
Time	46,185	1,900	4.11	29,264	1,225	4.19
Subtotal	111,644	2,236	2.00	80,401	1,502	1.87
Personal deposits						
Demand	12,863	52	0.40	10,750	47	0.44
Time	40,825	939	2.30	31,239	1,149	3.68
Subtotal	53,688	991	1.85	41,989	1,196	2.85
Others	24,553	363	1.48	23,287	498	2.14
Total deposits from customers	189,885	3,590	1.89	145,677	3,196	2.19

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.3.2 Interest expense on amounts due to banks and other financial institutions

In 2016, the Bank's interest expense on amounts due to banks and other financial institutions increased by RMB78 million or 4.30% to RMB1,892 million as compared with the same period last year, primarily attributable to the increase in the average balance of the amounts due to banks and other financial institutions and the decline in the average cost. The increase in the average balance of the amounts due to banks and other financial institutions primarily reflected the Bank's comprehensive consideration of the need to match assets and liabilities by increasing liabilities from banks, while the decline in the average cost was primarily because of the decline in market interest rate.

3.3.3 Interest expense on debt securities issued

In 2016, the Bank's interest expense on debt securities issued increased by RMB526 million or 70.32% to RMB1,274 million as compared with the same period last year, primarily attributable to the increase in average balance of debt securities issued and the decline in the average cost. The average balance of the debt securities issued increased primarily because of the issuance of Tier II capital bonds and interbank certificates of deposit in 2016, leading to an increase in the average balance of debt securities issued from RMB17,622 million as of 2015 to RMB36,161 million as of 2016. The decline in the average cost was primarily attributable to the decline in market interest rate.

3.3.4 Net interest spread and net interest margin

The Bank's net interest spread decreased from 2.95% for last year to 2.52% for the current year, while the Bank's net interest margin decreased from 3.12% for last year to 2.69% for the current year. The declines in net interest spread and net interest margin were primarily attributable to: (i) the decline in the average yield of investment in securities and other financial assets and loans and advances to customers; (ii) the decline of the proportion of loans and advances to customers with higher yield to total assets; and (iii) the increase in the amounts due to banks and other financial institutions, which was of higher interest rate, as well as the proportion of debt securities issued to total liabilities.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.4 Non-interest Income

3.4.1 Net fee and commission income

In 2016, the Bank's net fee and commission income increased by RMB502 million or 70.41% to RMB1,215 million as compared with the same period last year, primarily attributable to the increase in agency and custody services fees and underwriting and advisory fees, which in turn reflected the overall growth of the Bank's fee and commission businesses.

	For the year ended December 31,			
	2016	2015	Change	Rate of Change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Fee and commission income				
Agency and custody services fees	540	332	208	62.65
Underwriting and advisory fees	374	194	180	92.78
Acceptance and guarantee services fees	117	136	(19)	(13.97)
Bank card services fees	49	33	16	48.48
Others	180	50	130	260.00
Subtotal	1,260	745	515	69.13
Fee and commission expense	(45)	(32)	(13)	40.63
Net fee and commission income	1,215	713	502	70.41

In 2016, the Bank's agency and custody services fees income reached RMB540 million, up by RMB208 million or 62.65% as compared with the same period last year, primarily attributable to the Bank's continuous development of agency and custodian business with increase in the scale of agency and custodian services offered.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In 2016, the Bank's securities underwriting and consultancy business fees income reached RMB374 million, up by RMB180 million or 92.78% as compared with the same period last year, primarily as a result of the increase in scale of consultancy services offered and the number of bonds underwritten.

In 2016, the Bank's acceptance and guarantee fees income reached RMB117 million, down by RMB19 million as compared with the same period last year.

In 2016, the Bank's bank card services fees income was RMB49 million, up by RMB16 million or 48.48% as compared with the same period last year, primarily attributable to the increase in the number of bank cards issued by the Bank and the growth in transaction amount using the Bank's bank cards.

Other fees and commission income amounted to RMB180 million, up by RMB130 million or 260.00% as compared with the same period last year.

3.4.2 Net trading gains

In 2016, the Bank's net trading gains decreased by RMB48 million to RMB79 million as compared with the same period last year, primarily attributable to the decline in the market price of bonds invested by the Bank.

3.4.3 Net gains arising from investments

In 2016, the Bank's net gains arising from investments increased by RMB181 million or 670.37% to RMB208 million as compared with the same period last year, primarily attributable to the optimisation of investment portfolio and the increase in the scale of bonds trading.

3.4.4 Other operating income

In 2016, the Bank's other operating income increased by RMB91 million or 103.41% to RMB179 million as compared with the same period last year.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.5 Operating Expenses

In 2016, the Bank's operating expenses increased by RMB183 million or 8.13% to RMB2,435 million as compared with the same period last year primarily attributable to growth in staff costs.

	For the year ended December 31,			
	2016	2015	Change in amount	Rate of change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Staff costs	1,194	949	245	25.82
Depreciation and amortisation	213	157	56	35.67
Rental and property management expenses	176	145	31	21.38
Office expenses	77	78	(1)	(1.28)
Tax and surcharges	212	424	(212)	(50.00)
Other general and administrative expenses	563	499	64	12.83
Total operating expenses	2,435	2,252	183	8.13

The following table shows the major components of staff costs for the periods indicated.

	For the year ended December 31,			
	2016	2015	Change in amount	Rate of change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Staff costs				
Salaries, bonuses and allowances	801	614	187	30.46
Social insurance and annuity	161	129	32	24.81
Staff welfare	145	115	30	26.09
Housing allowances	47	38	9	23.68
Supplementary retirement benefits	7	7	—	—
Others	33	46	(13)	(28.26)
Total staff costs	1,194	949	245	25.82

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In 2016, the staff costs of the Bank were RMB1,194 million, up RMB245 million or 25.82% as compared with the same period last year, primarily attributable to the increase in salary, bonus and staff allowance. Staff costs represented the largest component of the Bank's operating expenses, and accounted for 49.03% and 42.14% of the total operating expenses in 2016 and 2015 respectively.

In 2016, depreciation and amortisation expenses were RMB213 million, up RMB56 million or 35.67% as compared with the same period last year, primarily as a result of the increase in the provision for depreciation and amortisation of fixed assets and intangible assets given the expansion of branch network and upgrading of information technology.

In 2016, rental and property management expenses were RMB176 million, up RMB31 million or 21.38%, primarily attributable to the expansion of branch network.

In 2016, office expenses were RMB77 million, down RMB1 million or 1.28% as compared with the same period last year, primarily as a result of the Bank's efforts on reducing operating fees.

In 2016, the Bank's tax and surcharges were RMB212 million, down RMB212 million or 50.00% as compared with the same period last year, primarily because the Bank was subject to value added taxes instead of business tax given the nationwide comprehensive implementation of the pilot work for transition from business tax to VAT since May 1, 2016 according to the requirements of the document Cai Shui [2016] No. 36.

In 2016, other general and administrative expenses were RMB563 million, up RMB64 million or 12.83% as compared with the same period last year. Other general and administrative expenses primarily included marketing expenses, advertising expenses, travelling expenses and certain other expenses.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3.6 Impairment Losses

In 2016, the Bank's impairment losses increased by RMB1,048 million or 80.74% to RMB2,346 million as compared with the same period last year, primarily attributable to the increase in the impairment losses of loans and advances to customers and investments classified as loans and receivables.

	For the year ended December 31,			
	2016	2015	Change in amount	Rate of change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Loans and advances to customers	1,972	1,125	847	75.29
Financial investments classified as receivables	285	130	155	119.23
Finance lease receivables	58	—	58	N/A
Others	31	43	(12)	(27.91)
Total provision for assets impairment losses	2,346	1,298	1,048	80.74

3.7 Income Tax Expenses

In 2016, the Bank's income tax increased by RMB206 million or 20.48% to RMB1,212 million, which was primarily attributable to the increase in the Bank's profit before taxation.

	For the year ended December 31,			
	2016	2015	Change in amount	Rate of change (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Current income tax	1,587	1,252	335	26.76
Deferred income tax	(379)	(244)	(135)	55.33
Adjustments for prior years	4	(2)	6	(300.00)
Total income tax expenses	1,212	1,006	206	20.48

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4 ANALYSIS OF KEY ITEMS OF FINANCIAL POSITION

4.1 Assets

As at December 31, 2016, the Bank's total assets increased by RMB100,525 million or 37.84% to RMB366,148 million from the end of last year. The principal components of the Bank's assets consist of (i) loans and advances to customers (net) and (ii) investment securities and other financial assets, up by RMB16,029 million and RMB69,929 million respectively compared with the end of last year.

The following table sets forth, as at the dates indicated, the components of the Bank's total assets.

	As at December 31, 2016		As at December 31, 2015	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Gross loans and advances to customers	111,092		94,294	
Allowance for impairment losses	(3,459)		(2,690)	
Loans and advances to customers, net	107,633	29.40	91,604	34.49
Investment securities and other financial assets	183,144	50.02	113,215	42.62
Cash and deposits with central bank	42,586	11.63	33,008	12.43
Deposits with banks and other financial institutions	1,415	0.39	7,679	2.89
Placements with banks and other financial institutions	11,758	3.20	5,520	2.08
Financial assets held under resale agreements	5,120	1.40	9,716	3.66
Finance lease receivables	5,721	1.56	—	—
Other assets	8,771	2.40	4,881	1.83
Total assets	366,148	100.00	265,623	100.00

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.1.1 Loans and advances to customers

As at December 31, 2016, the Bank's total loans and advances to customers increased by RMB16,798 million to RMB111,092 million, representing an increase of 17.81% as compared with the end of last year. Our loans and advances to customers consist primarily of corporate loans, personal loans and discounted bills.

The following table sets forth, as at the dates indicated, a breakdown of the Bank's loans by business line.

	As at December 31, 2016		As at December 31, 2015	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Corporate loans	81,255	73.14	67,009	71.07
Personal loans	24,815	22.34	22,842	24.22
Discounted bills	5,022	4.52	4,443	4.71
Total loans and advances to customers	111,092	100.00	94,294	100.00

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(1) Corporate loans

The corporate loans are the largest component of the Bank's loan portfolio. As at December 31, 2016, the Bank's corporate loans increased by RMB14,246 million to RMB81,255 million or 73.14% of the Bank's total loans and advances to customers, representing an increase of 21.26% as compared with the end of last year, mainly due to (i) the Bank's continued commitment to meet the capital requirements of the rapidly-growing wholesale and retail industry and to develop the loan business for small and micro enterprises, (ii) the Bank's efforts to continue to strengthen the business cooperation with core quality clients in various sectors to sustain the growth of the relevant loan balance.

The following table sets forth, as at the dates indicated, a breakdown of the Bank's corporate loans by collateral.

	As at December 31, 2016		As at December 31, 2015	
	Loan amount	% of total (%)	Loan amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Unsecured loans	6,455	7.95	783	1.17
Guaranteed loans	33,424	41.13	32,212	48.07
Loans secured by mortgages	20,198	24.86	18,510	27.62
Loans secured by pledges	21,178	26.06	15,504	23.14
Total corporate loans	81,255	100.00	67,009	100.00

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(2) Personal loans

As at December 31, 2016, the Bank's personal loans increased by RMB1,973 million to RMB24,815 million, representing an increase of 8.64% as compared with the end of last year. The continued growth of the Bank's personal loans was mainly attributable to the increases in personal residential mortgage, consumption and credit card balances. As at December 31, 2016, the personal residential mortgage loans increased by 17.74% as compared with the end of last year, mainly attributable to the continued promotion of the national center city of Zhengzhou and other planning and construction which led to the growth of individual housing demand. Personal consumption loans and credit card balances increased by 30.51% and 71.60% respectively as compared with the end of last year, mainly attributable to the business growth resulting from the Bank's greater efforts in innovating the consumption loan products.

The following table sets forth, as at the dates indicated, a breakdown of the Bank's personal loans by product type.

	As at December 31, 2016		As at December 31, 2015	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Personal business loans	11,750	47.35	12,025	52.65
Personal residential mortgage loans	6,862	27.65	5,828	25.51
Personal consumption loans	4,842	19.51	3,710	16.24
Auto loans	491	1.98	772	3.38
Credit card balances	870	3.51	507	2.22
Total personal loans	24,815	100.00	22,842	100.00

(3) Discounted bills

As at December 31, 2016, the Bank's discounted bills increased by RMB579 million to RMB5,022 million, representing an increase of 13.03% as compared with the end of last year. In 2016, the Bank flexibly adjusted the scale of bill financing according to the business development requirements and clients' financing needs.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.1.2 Investment securities and other financial assets

As at December 31, 2016, the total amount of the Bank's investment securities and other financial assets increased by RMB69,929 million to RMB183,144 million, representing an increase of 61.77% as compared with the end of last year. The increase in such assets of the Bank for 2016 was mainly due to the increase in our holding of investment products under trust schemes, investment of financial bonds and investment products managed by securities companies, which reflected the Bank's continued efforts to diversify our investment portfolio to expand income sources.

The following table sets forth, as at the dates indicated, a breakdown of the Bank's investment securities and other financial assets by investment intentions.

	As at December 31, 2016		As at December 31, 2015	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Investments classified as loans and receivables	118,225	64.55	65,106	57.51
Held-to-maturity investments	49,671	27.12	23,902	21.11
Available-for-sale financial assets	6,302	3.44	11,206	9.90
Financial assets at fair value through profit or loss	8,946	4.89	13,001	11.48
Total investment securities and other financial assets	183,144	100.00	113,215	100.00

Our investment securities and other financial assets are classified into fixed-income securities and equity instruments. During the Reporting Period, substantially all of our investment securities and other financial assets were fixed-income securities. The following table sets forth, as at the dates indicated, the distribution of the Bank's investment securities and other financial assets by fixed income securities and equity instruments.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

	As at December 31, 2016		As at December 31, 2015	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Government bonds	14,783	8.05	11,982	10.56
Debt securities issued by policy banks	32,869	17.90	21,228	18.71
Debt securities issued by banks and other financial institutions	6,917	3.76	3,048	2.69
Debt securities issued by corporate issuers	4,974	2.71	7,483	6.60
Subtotal	59,543	32.42	43,741	38.56
Investment products under trust schemes	52,795	28.75	29,146	25.69
Investment products managed by securities companies	45,080	24.54	31,329	27.62
Others	26,238	14.29	9,226	8.13
Total	183,656	100.00	113,442	100.00
Less: Allowance for impairment losses	(520)		(235)	
Total fixed-income instruments	183,136		113,207	
Equity instruments	8		8	
Total investment securities and other financial assets	183,144		113,215	

As at December 31, 2016, the Bank's net fixed-income securities totaled RMB183,136 million, an increase by RMB69,929 million or 61.77% as compared with the end of last year. The continued growth of the fixed-income securities held by the Bank was mainly attributable to the increase in our holding of financial bonds, investment products under trust schemes and investment products managed by securities companies.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.1.3 Other components of the Bank's assets

Other components of the Bank's assets primarily consist of (i) cash and deposits with central bank, (ii) placements with banks and other financial institutions, and (iii) financial lease receivables.

As at December 31, 2016, the Bank's cash and deposits with central bank increased by RMB9,578 million to RMB42,586 million, representing an increase of 29.02% as compared with the end of last year, mainly due to the increase in the volume of deposits from customers which increased the statutory deposit reserve placed in PBoC.

As at December 31, 2016, placements with banks and other financial institutions increased by RMB6,238 million to RMB11,758 million, representing an increase of 113.01% as compared with the end of last year, mainly due to the Bank maximized the overall returns of assets by optimizing its assets structure.

As at December 31, 2016, the Bank's net finance lease receivables increased by RMB5,721 million to RMB5,721 million as compared with the end of last year. The change in these assets was mainly due to the establishment of a subsidiary, Jiuding Financial Leasing Company, by the Bank on March 23, 2016.

4.2 Liabilities

As at December 31, 2016, the Bank's total liabilities increased by RMB96,488 million to RMB344,287 million, representing an increase of 38.94% as compared with the end of last year.

	As at December 31, 2016		As at December 31, 2015	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Due to central bank	77	0.02	—	—
Deposits from customers	216,390	62.85	169,195	68.28
Deposits from banks and other financial institutions	25,808	7.50	21,453	8.66
Placements from banks and other financial institutions	19,106	5.55	5,820	2.35
Financial assets sold under repurchase agreements	33,251	9.66	19,603	7.91
Debt securities issued	44,660	12.97	27,039	10.91
Other liabilities ⁽¹⁾	4,995	1.45	4,689	1.89
Total liabilities	344,287	100.00	247,799	100.00

Note:

- (1) Consisting of interest payable, payment and collection clearance accounts, tax payable, accrued staff costs, dormant accounts, dividend payable, provisions, and certain other liabilities.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.2.1 Deposits from customers

As at December 31, 2016, the Bank's deposits from customers increased by RMB47,195 million to RMB216,390 million, representing an increase of 27.89% as compared with the end of last year. The increase in the Bank's deposits from customers was primarily attributable to the general business growth generated by the Bank's continuous expansion of deposit customers and branch network.

The following table sets forth, as at the dates indicated, the Bank's deposits from customers by product type and maturity profile of deposits.

	As at December 31, 2016		As at December 31, 2015	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Corporate deposits				
Demand	77,197	35.67	62,771	37.10
Time	54,783	25.32	34,241	20.24
Subtotal	131,980	60.99	97,012	57.34
Personal deposits				
Demand	16,178	7.48	12,976	7.67
Time	44,647	20.63	34,106	20.16
Subtotal	60,825	28.11	47,082	27.83
Other deposits	23,585	10.90	25,101	14.83
Total	216,390	100.00	169,195	100.00

4.2.2 Deposits from banks and other financial institutions

As at December 31, 2016, the balance of deposits from banks and other financial institutions of the Bank increased by RMB4,355 million to RMB25,808 million, representing an increase of 20.30% as compared with the end of last year, which mainly reflected the Bank's continuous expansion of interbank source of funds so as to meet the changes in fund demand.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4.2.3 Placements from banks and other financial institutions

As at December 31, 2016, the balance of placements from banks and other financial institutions of the Bank increased by RMB13,286 million to RMB19,106 million, representing an increase of 228.28% as compared with the end of last year. The changes in the placements from banks and other financial institutions mainly reflected the Bank's continuous expansion of source of interbank funds so as to meet the changes in fund demand.

4.2.4 Financial assets sold under repurchase agreements

As at December 31, 2016, the Bank's financial assets sold under repurchase agreements increased by RMB13,648 million to RMB33,251 million, representing an increase of 69.62% as compared with the end of last year. The changes in the Bank's financial assets sold under repurchase agreements reflected adjustments to the proportion of financial assets sold under repurchase agreements to the Bank's liabilities based on market liquidity and the Bank's capital needs after taking into consideration the need for assets and liabilities matching.

4.3 Shareholders' Equity

As at December 31, 2016, the Bank's shareholders' equity increased by RMB4,037 million to RMB21,861 million, representing an increase of 22.65% as compared with the end of last year. As at December 31, 2016, equity attributable to shareholders of the parent company increased by RMB3,501 million to RMB21,296 million, representing an increase of 19.67% as compared with the end of last year. The increase in shareholders' equity was mainly due to the increase in the Bank's profits.

	As at December 31, 2016		As at December 31, 2015	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Share capital	5,322	24.35	5,142	28.85
Capital reserve	3,053	13.97	2,662	14.93
Surplus reserve	1,633	7.47	1,238	6.95
General reserve	4,528	20.71	3,163	17.75
Investment revaluation reserve	3	0.01	11	0.06
Deficit on remeasurement of net defined benefit liability	(52)	(0.24)	(55)	(0.31)
Retained earnings	6,809	31.15	5,634	31.61
Total equity attributable to shareholders of the Bank	21,296	97.42	17,795	99.84
Non-controlling interests	565	2.58	29	0.16
Total equity	21,861	100.00	17,824	100.00

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

5 OFF-BALANCE SHEET COMMITMENTS

The following table sets forth, as at the dates indicated, the contractual amounts of the Bank's off-balance sheet credit commitments.

	As at December 31, 2016 (Expressed in millions of Renminbi)	As at December 31, 2015 (Expressed in millions of Renminbi)
Credit commitments:		
Bank acceptances	58,123	41,389
Letters of credit	2,984	2,295
Guarantees	1,171	1,035
Unused credit card commitments	1,006	463
Total	63,284	45,182

In addition, as at December 31, 2016, there was no material litigation in which either the Bank or subsidiaries of the Bank is a defendant. As at the results announcement date of the Bank, the Bank had no significant contingent liabilities. Details of off-balance sheet commitments are disclosed in note "Commitments and contingent liabilities" in the financial report of this annual report.

6 ANALYSIS ON LOAN QUALITY

During the Reporting Period, the Bank continued to strengthen credit risk management, improve credit investigation and credit approvals and strengthen post-loan management measures to step up the efforts on collection and disposal of non-performing loans, so that the loan quality was generally kept at a manageable level. However, due to the changes in external operating environment, the slowdown of economic growth, the difficult operating environment for SME and the increase of default on loans, the Bank's non-performing loans was facing upward pressure.

As at December 31, 2016, the balance of non-performing loans amounted to RMB1,457 million. The non-performing loan ratio was 1.31%, up 21bps as compared with the end of last year.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.1 Distribution of Loans by Five-Category Loan Classification

The following table sets forth, as at the dates indicated, the Bank's loans and advances to customers by the Bank's five-category loan classification.

	As of December 31, 2016		As of December 31, 2015	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Normal	106,383	95.76	91,079	96.59
Special mention	3,252	2.93	2,175	2.31
Substandard	1,041	0.94	869	0.92
Doubtful	415	0.37	171	0.18
Loss	1	—	—	—
Total loans and advances to customers	111,092	100.00	94,294	100.00
Non-performing loans and non-performing loan ratio ⁽¹⁾	1,457	1.31	1,040	1.10

Note:

(1) Calculated by dividing total non-performing loans by total loans and advances to customers.

According to the five-category loan classification system, the Bank classified its non-performing loans into substandard, doubtful and loss categories.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.2 Distribution of Loans and Non-Performing Loans by Product Type

The following table sets forth, as at the dates indicated, the Bank's loans and non-performing loans by product types.

	As at December 31, 2016				As at December 31, 2015			
	Amount	% of total	NPL Amount	NPL ratio	Amount	% of total	NPL Amount	NPL ratio
		(%)		(%)		(%)		(%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>								
Corporate loans								
Short-term loans	53,609	48.25	956	1.78	48,225	51.15	815	1.69
Medium and long-term loans	27,646	24.89	260	0.94	18,784	19.92	175	0.93
Discounted bills	5,022	4.52	–	–	4,443	4.71	–	–
Subtotal	86,277	77.66	1,216	1.41	71,452	75.78	990	1.39
Personal loans								
Personal business loans	11,750	10.58	196	1.67	12,025	12.75	38	0.32
Personal residential mortgage loans	6,862	6.18	3	0.04	5,828	6.18	2	0.03
Personal consumption loans	4,842	4.36	39	0.81	3,710	3.93	9	0.24
Auto loans	491	0.44	–	–	772	0.82	–	–
Credit card balance	870	0.78	3	0.34	507	0.54	1	0.20
Subtotal	24,815	22.34	241	0.97	22,842	24.22	50	0.22
Total	111,092	100.00	1,457	1.31	94,294	100.00	1,040	1.10

In 2016, the Bank actively responded to the national policies by strengthening the adjustment of loans structure and continuing to develop microcredit business (corporate loans to small enterprises and personal loans). At the end of the Reporting Period, the NPL ratio of corporate loans and personal loans rose to 1.41% and 0.97% respectively, mainly due to the fact that the economic downturn has adversely affected the operation of enterprises in general as evidenced by the fast increases of corporate loans and personal business loans, overcapacity, relatively high pressure in destocking and decrease in both sales volume and prices, making it difficult for enterprises to continue their operations. However, the loan risks of the Bank are controllable in general.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.3 Distribution of Loans and Non-Performing Loans by Industry

The following table sets forth, as at the dates indicated, the distribution of the Bank's loans and non-performing loans by industry.

	As at December 31, 2016				As at December 31, 2015			
	Amount	% of total	NPL Amount	NPL ratio	Amount	% of total	NPL Amount	NPL ratio
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>								
Wholesale and retail	29,898	26.91	373	1.25	23,618	25.05	365	1.55
Manufacturing	13,055	11.75	688	5.27	14,101	14.95	493	3.50
Construction	10,687	9.62	35	0.33	7,279	7.72	111	1.52
Real estate	8,737	7.87	–	–	7,349	7.79	–	–
Leasing and commercial services	4,092	3.68	4	0.10	1,412	1.50	3	0.21
Agriculture, forestry, animal husbandry and fishery	3,620	3.26	88	2.43	3,866	4.10	3	0.08
Water, environment and public facility management	2,088	1.88	–	–	1,331	1.41	–	–
Mining	1,509	1.36	–	–	1,849	1.96	–	–
Production and supply of electric and heating power, gas and water	1,391	1.25	–	–	941	1.00	–	–
Transportation, storage and postal services	1,361	1.23	6	0.44	1,133	1.20	10	0.88
Accommodation and catering	1,082	0.97	–	–	1,231	1.31	2	0.16
Public administration, public security and social organisations	914	0.82	–	–	1,260	1.34	–	–
Culture, sports and entertainment	210	0.19	–	–	435	0.46	3	0.69
Others	2,611	2.35	22	0.84	1,204	1.28	–	–
Total corporate loans	81,255	73.14	1,216	1.50	67,009	71.07	990	1.48
Total personal loans	24,815	22.34	241	0.97	22,842	24.22	50	0.22
Discounted bills	5,022	4.52	–	–	4,443	4.71	–	–
Total	111,092	100.00	1,457	1.31	94,294	100.00	1,040	1.10

As at December 31, 2016, the non-performing corporate loans of the Bank concentrated in the manufacturing industry, agriculture, forestry, animal husbandry and fishery and the wholesale and retail industry, with NPL ratio of 5.27%, 2.43% and 1.25%, respectively.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.4 Distribution of Loans and Non-Performing Loans by Collateral

The following table sets forth, as at the dates indicated, the distribution of the Bank's loans and non-performing loans by collateral.

	As at December 31, 2016				As at December 31, 2015			
	Amount	% of total	NPL Amount	NPL ratio	Amount	% of total	NPL Amount	NPL ratio
		(%)		(%)		(%)		(%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>								
Unsecured loans	7,660	6.90	3	0.04	1,316	1.40	1	0.08
Guaranteed loans	42,790	38.52	1,178	2.75	39,179	41.55	868	2.22
Loans secured by mortgages	33,254	29.93	253	0.76	30,194	32.02	167	0.55
Loans secured by pledges	27,388	24.65	23	0.08	23,605	25.03	4	0.02
Total	111,092	100.00	1,457	1.31	94,294	100.00	1,040	1.10

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.5 Borrowers Concentration

As at December 31, 2016, the Bank was in compliance with the lending limit of 10% of the Bank's net capital to any single borrower. The following table sets forth, as at December 31, 2016, the Bank's loans (in terms of loan balance) to the ten largest single borrowers (excluding group borrowers), all of which were classified as normal.

As at December 31, 2016				
	Industry	Balance	% of total loans (%)	% of net capital (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Borrower A	Leasing and commercial services	1,000	0.90	3.51
Borrower B	Construction	797	0.72	2.80
Borrower C	Real estate	780	0.70	2.74
Borrower D	Financial services	700	0.63	2.46
Borrower E	Manufacturing	600	0.54	2.11
Borrower F	Real estate	581	0.52	2.04
Borrower G	Construction	572	0.51	2.01
Borrower H	Real estate	534	0.48	1.88
Borrower I	Public administration, public security and social organisations	500	0.45	1.76
Borrower J	Leasing and commercial services	500	0.45	1.76
Borrower K	Leasing and commercial services	500	0.45	1.76
Total		7,064	6.35	24.83

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

6.6 Overdue Loans

The following table sets forth, as at the dates indicated, the distribution of the Bank's loans and advances to customers by maturity.

	As at December 31, 2016		As at December 31, 2015	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Current loans	105,989	95.41	91,401	96.93
Loans past due for ⁽¹⁾ :				
1 to 90 days	3,218	2.90	1,748	1.86
91 to 360 days	1,536	1.38	840	0.89
361 days or more	349	0.31	305	0.32
Subtotal	5,103	4.59	2,893	3.07
Total loans	111,092	100.00	94,294	100.00

As at December 31, 2016, the amount of overdue loans totaled RMB5,103 million, up RMB2,210 million as compared with the end of last year. Overdue loans accounted for 4.59% of the total loans, up 1.52% as compared with the end of last year. The increase in overdue loans was mainly a result of continued economic downturn which has adversely affected the operation of enterprises general as evidenced by serious overcapacity, relatively high pressure in destocking and decrease in both sales volume and prices, making it difficult for enterprises to continue their operations. The shortage of cash flow in turn led to overdue of principal amount and interests. The Bank will continue to strengthen risk alert and monitoring, and accelerate the risk elimination.

Note:

- (1) Representing the principal amount of the loans on which principal or interest is overdue.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

7 BUSINESS SEGMENT REPORT

The table below sets forth the Bank's operating income by business segments for the periods as indicated:

	As at December 31, 2016		As at December 31, 2015	
	Amount	% of total (%)	Amount	% of total (%)
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>				
Corporate banking business	3,895	39.03	3,406	43.33
Retail banking business	1,035	10.37	1,306	16.61
Treasury business	4,871	48.81	3,062	38.95
Others ⁽¹⁾	179	1.79	87	1.11
Total operating income	9,980	100.00	7,861	100.00

Note:

- (1) Consists primarily of equity investment and the corresponding income, and expenses that are not directly attributable to any specific segment.

8 ANALYSIS ON CAPITAL ADEQUACY RATIO

The Bank continued to optimise its business structure and strengthen its capital management. As at December 31, 2016, the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio of the Bank were 11.76%, 8.80% and 8.79%, respectively, and down 44bp, 129bp and 130bp, respectively, as compared with the end of last year, which fulfilled the requirements provided in the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBRC for the transition period. The changes in capital adequacy ratio were mainly due to the increase in risk-weighted assets resulting from the increase in size of assets of the Bank.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In accordance with Administrative Measures for the Capital of Commercial Banks (Provisional) (the “New Measures”) issued by CBRC, the capital adequacy ratio of the Bank was as follows:

	As at December 31, 2016 Amount	As at December 31, 2015 Amount
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>		
Core tier-one capital		
Share capital	5,322	5,142
Valid portion of capital reserve	3,004	2,618
Surplus reserve	1,633	1,238
General reserve	4,528	3,163
Retained earnings	6,809	5,634
Valid portion of minority interests	363	23
Total core tier-one capital	21,659	17,818
Core tier-one capital deductions	(384)	(284)
Net core tier-one capital	21,275	17,534
Other tier-one capital	37	—
Net tier-one capital	21,312	17,534
Tier-two capital		
Qualifying portions of tier-two capital instruments issued	5,000	2,000
Surplus provision for loan impairment	2,080	1,649
Adjustments for tier-two capital	71	—
Net tier-two capital	7,151	3,649
Net capital base	28,463	21,183
Total risk-weighted assets	242,109	173,697
Core tier-one capital adequacy ratio	8.79%	10.09%
Tier-one capital adequacy ratio	8.80%	10.09%
Capital adequacy ratio	11.76%	12.20%

9 BUSINESS OPERATION

9.1 Corporate Banking Business

9.1.1 Corporate deposit and loan business

Corporate deposits

During the Reporting Period, faced with the downturn pressure of the economy, by proactively responding to the macro-economic situation and the change in policy environment, the Bank implemented a number of measures and actively coped with the challenges. The Bank advanced the development of trading and financing business and investment banking business to carry forward the transformation and upgrading of its businesses. It also leveraged on its portfolio of liability products and innovation capability to enhance the efficiency of corporate deposit. Promoted by the bank strategy focusing on commerce and logistics, the Bank also committed to achieve success. Further cooperation with provincial and municipal governments also resulted in comprehensive improvement of the quality of deposit related to financial businesses.

During the Reporting Period, the Bank's corporate deposit continued to increase stably. As of December 31, 2016, the balance of corporate deposit amounted to RMB155.563 billion, accounting for 71.89% of the balance of all deposits, representing an increase of RMB33.450 billion or 27.39%. Meanwhile, in 2016, the Bank proactively developed business cooperation with institutions including the Zhengzhou City Public Resources Trading Centre, the Henan Social Security Bureau and the Henan Local Taxation Bureau to further achieve central capital management of financial customers and consolidate customer resources, enhancing the overall contribution of corporate customers.

Corporate loans

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include, among other credit services, corporate loans, bank acceptances, trade finance, letters of credit, and foreign currency loans. During the Reporting Period, the Bank has enhance its efforts to credit assets management in terms of optimizing the approval system for credit grant and the independent approval person system, building up the first-in-line responsibility system, improving the management of the Group's credit grant business and starting using the new standard documents for credit grant, with innovative development and preventing risks as its main focus. Meanwhile, in order to facilitate the adjustment of its credit structure, the Bank increasingly promoted its withdrawal from over-capacity industries and the construction of green credit system.

During the Reporting Period, the Bank's total corporate loan amounted to RMB86.277 billion, representing an increase of RMB14.825 billion or 20.75% as compared with the end of last year. Apart from discounted bills, the total corporate loan amounted to RMB81.255 billion, representing an increase of RMB14.246 billion or 21.26% as compared with the end of last year and accounted for 73.14% the total loan amount.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.1.2 Customer management and team building

Customer management

In 2016, the Bank continued to advance its customer management works and enhanced its integrated financial servicing capability towards customers. Meanwhile, it also initiated marketing efforts targeting customers in a comprehensive, unified, highly efficient, layered and segmented manner by leveraging on its customer relationship management system, thereby strengthening its systematic management of customers to further consolidate its customer base, as well as effectively enhancing its management efficiency of customer relationship and customer managers. Taking advantage of its operation layout and network resources in Henan Province, the Bank's number of corporate customers continued its upward trend.

Team building for sales teams

By introducing a leveled management system for corporate customer managers, the Bank promoted the accreditation of customer managers to sustainably improve the performance evaluation and target management methodology for customer managers. By integrating stringent evaluation on the performance of customer managers, business standard and moral standard, it initiated dynamic management of customer managers to further enhance the team structure of customer managers and stimulate their work attitude, thereby building a professional customer manager team that is highly energetic and service-oriented with strong professional ethics. By consistently improving the management system of corporate customer managers, the Bank facilitated the sustained and steady development of its businesses.

9.2 Small and Micro Enterprise Loan Business

In 2016, the Bank upheld the service tenet of being "Efficient, Flexible, Innovative and Professional" and continuously implemented its philosophy, product and innovation, so as to steadily increase its credit investment to small and micro enterprises and help them to grow and become stronger.

During the Reporting Period, the Bank established a specialised operation and management system. It also set up a small business financial service centre at head office level, and "cross-region small business branch centres", "retail banking sub-branches", "small and micro enterprise sub-branches" and other specialized sections at secondary branches and sub-branches, which developed a specialized organizational system for small and micro business composed of specialized branches, small and micro enterprise sub-branches and cross-region branch centres. At present, the small business financial service centre is in charge of 16 retail banking sub-branches, 12 small and micro enterprise sub-branches, 8 prefectural and municipal small business financial service sub-centres, with a specialised customer manager team for small and micro enterprise comprising of over 200 customer managers. As at December 31, 2016, the balance of the Bank's loans to small and micro enterprise amounted to RMB59.024 billion, representing an increase of RMB9.531 billion as compared with that at the beginning of the year; the number of small and micro corporate customers of the Bank was 19,675, representing an increase of 3,267 as compared with that at the end of the previous year. As such, the Bank has successfully met with the regulatory requirements of "Three Minimum Thresholds".

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

During the Reporting Period, the Bank aggressively carried out innovation campaign. Firstly, the Bank launched the first exclusive credit card, Easy Disbursement (簡單派), for small and micro enterprise. The credit card product is an automatic e-channel integrating various functions such as loan application, self-service loan obtainment, self-service repayment and general inquiry, which help facilitate the promotion of electronic and digital online approval mode and expand the client coverage significantly. Secondly, the Bank launched several exclusive customized products, including “Logistics Flow Loan (物流流量貸)”, “Personal Auto Short-term Loan (個人汽車短期貸款)” and “Technology Loan (科技貸)”. As at December 31, 2016, the balance of logistics business loan was RMB389,000, and the balance of personal auto short-term loan was RMB12.766 million. As one of the first banks selected by Henan Science and Technology Department for cooperating on “Technology Loan” business, the Bank entered into a framework cooperation agreement with the latter on October 25, 2016. Thirdly, the Bank launched an innovative big data product, “Taxation-linked Loan (稅聯貸)”.

During the Reporting Period, the Bank further deepened the application of big data and models. Firstly, the Bank enhanced its internal data mining, utilized its ability and development and launched the WeChat Reporting Structured Data Analysis System of PBoC to realize automatic alert to risks. Secondly, the Bank introduced external data APP in marketing and risk control. On one hand, POS (point-of-sale) transaction data, logistics data, tax data were used in precision marketing and new product development; on the other hand, information of judicial litigation, administrative penalty, registered equity interests with industry and commerce department and personal identity are available for risk control by cooperating with companies such as LawXP (匯法網) and Mingrun Huachuang (明潤華創). Thirdly, the development of risk control models was enhanced continuously, forming a model system consisting of three models, i.e. application model, behaviour model, and anti-fraud model. 33 application models and 5 behaviour models were developed by the Bank, thereby building a pricing model integrating such factors as capital cost, operating cost and risk cost.

During the Reporting Period, in recognition of its outstanding financial services to small and micro enterprises, the Bank was honoured as “Excellent Financial Institution” by PBoC Zhengzhou Central Sub-branch. The Bank’s “promotion and application of the model of loans secured by accounts receivable” was publicly praised by PBoC Zhengzhou Central Sub-branch. Its “guaranteed and insured loans” was awarded the Top 10 Financial Product Innovations in the 2016 China Financial Innovation Awards jointly organized by Chinese Magazine The Banker, CCTV, the Institute of Finance and Banking of the Chinese Academy of Social Sciences and the Internet Economic Research Institute of Central University of Finance and Economics.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.3 Personal Banking Business

9.3.1 Personal deposits

As a local financial institute in Zhengzhou, the Bank adhered to its unique positioning as a “boutique bank of the people”. Focusing on the main business theme of serving personal customers, the Bank made unwavering efforts on launching new products, perfecting the service system, enhancing customer values and establishing outstanding teams. The Bank strived to enhance the quality of business development by insisting on consolidating cross sales, consumer finance and wealth management. The Bank also continued to upgrade the quality of its financial services closely related to local residents to constantly motivate the development of its personal loan business. Meanwhile, the Bank proactively responded to market-oriented interest rates by sustainably improving the deposit interest pricing strategy catering to the needs of market and customers, so as to enhance its capability of pricing autonomy and risk management in respect of the deposit business. As at December 31, 2016, total personal deposit amounted to RMB60.827 billion, representing an increase of RMB13.745 billion or 29.19% from the end of last year. The Bank’s personal deposit business was ranked top among its regional peers in terms of total balance, increment and market share.

9.3.2 Personal loans

During the Reporting Period, the Bank focused on the development of consumer finance and dedicated itself to building a “boutique bank of the people” and an inclusive financial institution, so as to launch the financial service brand named “Easy Disbursement (簡單派)”. Furthermore, the Bank has succeeded in achieving the objective of “National Funny Festival (全民樂活節)” campaign by promotion of “scenario consumption (場景消費)” financial model, development of “Disbursement in Live + Disbursement of Credit (派生活+派信用)” product regime and establishment of “Alliance Of Fun (樂活聯盟)”. As at December 31, 2016, the balance of personal loans amounted to RMB24.815 billion, representing an increase of RMB1,973 million or 8.64% from the beginning of the year.

9.3.3 Bank cards

In addition to the basic version of debit cards named “Shangding Card (商鼎卡)”, the Bank also issued special themed cards in 2016, such as “Luohe Citizen Card (漯河市民卡)”, “Chengtong Card (誠通卡)”, “Zhejiang Business Card (浙商通卡)”, “Wuyue Automobile House Card (五嶽汽車之家)”, “Fangyuan Logistics Card (方圓物流卡)” and “Shangding Zhongyi Card (商鼎中意卡)”. The number of new cards issued witness a steady growth. As at December 31, 2016, the Bank has issued a total of 3,990.4 thousand debit cards, with 1,129.8 thousand new cards issued during the year.

The Bank launched its first Shangding credit card in October 2014, and launched the Shangding series joint name card named “Yuche Card” in August 2016. As at December 31, 2016, a total of 61,270 Shangding credit cards (including 1,809 Yuche Cards) have been issued with aggregate transaction amount and aggregate operation revenue amounting to RMB9.901 billion (2016: RMB6.993 billion) and RMB47 million (2016: RMB34 million), respectively.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.4 Treasury Business

9.4.1 Money market transactions

During the Reporting Period, China's overall economic development was still in a balanced but low condition. The Central Bank, on the one hand, maintained the average interest rate in a steady growth by elevating interest rate of open market operations; on the other hand, maintained a tight balance of capital through expansion of the instrument portfolio. Entering into the second half of the year, however, a prudent assessment of the "price and quantity" became more important, and the upward pressure on capital price increased along with the Central Bank's deleveraging and the interest rate raise from The Federal Reserve System. In the view of the Bank, with the restructuring of rural credit cooperatives in Henan Province, the capital market situation is more severe. How to accurately assess the demand for capital, reasonably set the price for absorbing funds, reduce the loss of interest on the Bank, and respond to market volatility, has become an increasingly important topic.

During the Reporting Period, by establishing an interbank exchanges platform and an interbank deposits internal quotation platform, as well as improving external rating and implementing other measures, the Bank further expanded its financial customer base, and aggressively grasped market opportunities to improve profitability while ensuring liquidity. As at December 31, 2016, the total balance of the Bank's deposits/placements with banks and other financial institutions and financial assets held under resale agreements amounted to RMB18,293 million, representing 4.99% of the Bank's total assets; and the total balance of the Bank's deposits/placements from banks and other financial institutions and financial assets sold under repurchase agreements amounted to RMB78,165 million, representing 22.71% of the Bank's total liabilities.

9.4.2 Investment in securities and other financial assets

During the Reporting Period, the Bank made timely adjustments to its investment business and interbank liability strategy and leveraged appropriate trading opportunities by closely monitoring changes in economic environment and financial market and analysing the trend of market changes, so as to achieve better spread income. At the same time, the Bank increased the capital available for investment by continually enriching and timely adjusting the absorption ways of various types of deposits, and improved the efficiency of capital utilization by continually expanding the channels of capital application. As at December 31, 2016, the total securities investments and other financial assets of the Bank's financial markets department amounted to RMB183,656 million, representing an increase of RMB70,214 million or 61.89% as compared with that at the end of the previous year. Specifically, the total amount of the Bank's bond investments was RMB59,543 million, representing a year-on-year increase of 36.13%, and the total amount of the Bank's investment products under trust schemes and investment products managed by securities companies was RMB97,875 million, representing a year-on-year increase of 61.84%.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.4.3 *Wealth management business*

As at December 31, 2016, the Bank had 199 ongoing wealth management products with a size of RMB51,809 million, representing an increase of RMB26,496 million or 104.67% as compared with that at the beginning of the year. In 2016, the daily average size of ongoing wealth management products amounted to RMB37.3 billion, representing an increase of RMB17.4 billion or 87.44% as compared with that at the beginning of the year.

During the Reporting Period, the Bank smoothly operated four series of conventional wealth management products, “Dingcheng (鼎誠)”, “Jujin (聚金)”, “Jucai (聚財)” and “Yueyueying (月月盈)” and three series of tailored wealth management products, “Chang Xiang (暢享)”, “Juxin (聚鑫)” and “Tonghui (同惠)”, among which, “Yueyueying (月月盈)” is the first open-end and non net-worth wealth management product issued through counters by the Bank in the second half of the year, and is also the first open-end wealth management product of the city commercial banks in the country and in Henan Province. In 2016, the Bank issued a total of 342 wealth management products with accumulated proceeds of RMB81,436 million; averagely, the Bank issued 28.5 wealth management products with accumulated proceeds of RMB6,786 million per month. The number of issued products and the gross proceeds recorded a year-on-year increase of 62.86% and 31.77% respectively.

9.5 Distribution Channels

9.5.1 *Physical outlets*

During the Reporting Period, the Bank has established its head office in Zhengzhou and ten branches in Nanyang, Xinxiang, Luoyang, Anyang, Xuchang, Shangqiu, Luohe, Xinyang, Puyang and Pingdingshan were granted approvals to commence operation. As at December 31, 2016, a total of 132 sub-branches were established within Henan Province. The Bank operates mainly in Henan Province of the PRC.

As at December 31, 2016, the Bank had a total of 132 intra-branch self-service facilities, including 77 banks in Zhengzhou urban districts, 10 branches and 45 county outlets. The Bank also had a total of 156 extra-branch self-service facilities in Henan Province, including 82 banks in Zhengzhou urban districts and 74 county outlets. The Bank’s network of self-service outlets also covered other counties, including Nanyang, Xinxiang, Luoyang, Zhongmu, Dengfeng, Xinmi and Xinzheng.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.5.2 Electronic banking

Self-service banking

The Bank's self-service banking infrastructure covers automatic teller machines, automatic cash withdrawal and deposit machines, smart counters, online banking terminals, easy payment terminals, "QuikTrans (快窗)" and "Yingtietong (銀鐵通)" units, with an aim to provide customers with a wide range of services ranging from cash withdrawal and deposit, account inquiry, bill payment, PIN change, fund transfer and train ticket purchase with a higher efficiency. Adhering to our customer-oriented strategy, we have been developing and upgrading our self-service banking facilities with new functions, while the growing smart counter business resulted in better customer flow management and reduced the burden at the frontline. As at December 31, 2016, we had 1,291 sets of self-service banking facilities, including 359 automatic teller machines, 350 automatic cash withdrawal and deposit machines, 201 smart counters, 240 online banking terminals, 140 easy payment terminals and 1 "QuikTrans" teller. The total number of cash withdrawal and deposit transactions amounted to 11,370,000, representing a year-on-year increase of 6%, while the transaction amount totaled RMB19.5 billion, recording a year-on-year increase of 11%.

Online banking

Our online banking service was introduced to the market in October 2010. In 2016, our online banking segment registered 162,900 new accounts, representing a year-on-year increase of 62.90%, among which 155,700 were new personal accounts and 7,200 were new corporate accounts. The number of transfer transactions reached 4,041,900, recording a year-on-year increase of 38.41%, while the transaction amount totaled RMB358.486 billion, representing a year-on-year increase of 38.28%. As at the end of December 2016, the total number of online banking accounts reached 446,900, among which 426,100 were personal accounts and 20,800 were corporate accounts.

Mobile banking

The Bank's mobile banking service was offered to the market on January 9, 2013. On November 11, 2015, our upgraded mobile banking service was introduced. In 2016, mobile banking service mainly includes "Financial Street (金融街)" and "Living Circle (生活圈)" projects. Financial Street project mainly refers to the finance related functions of the mobile banking service. According to the project planning of Financial Street, one by one, mobile banking service has introduced various functions including fund purchase, Ritianli (日添利), certificates of deposit, subscription, time deposit and current deposit conversion, contracted withholding, Yinxintong (銀信通) contracting, Huideli (惠得利) contracting, personal loan comprehensive inquiries (general inquiries and recycling loan inquiries), lending and repayment of revolving loans etc. Mobile banking also provided services for application for the Bank's credit cards and interbank repayment. By adhering to the Bank's positioning as a "boutique banking for residents", the Living Circle is targeted to provide certain life services closely linked with financial products, such as hospital appointment, charitable donation, ticket booking, school payment etc. The powerful features and improving services of mobile banking has brought our customers with brand-new user experience.

In 2016, our mobile banking segment registered 234,400 new accounts, representing a year-on-year increase of 118.45%, while the number and amount of transactions amounted to 1,544,500 and RMB16.132 billion respectively, representing a year-on-year increase of 126.20% and 473.28% respectively. As at December 31, 2016, the total number of mobile banking accounts reached 442,900 while the aggregate number and amount of transactions amounted to 2,709,900 and RMB20.335 billion respectively.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Online payment

Our online payment platform was introduced to the market in July 2012. In 2016, 2,687,500 new users registered on our platform, representing a year-on-year increase of 2,853.3%, while the number and amount of transactions amounted to 5,943,400 and RMB3.145 billion respectively, representing a year-on-year increase of 100.31% and 273.96%, respectively. As at December 31, 2016, the total number of users on our online payment platform reached 2,901,100 while the aggregate number and amount of transactions amounted to 10,714,600 and RMB4.366 billion respectively.

As at December 31, 2016, the Bank's online payment service has covered mainstream payment providers such as Alipay, Tenpay, Baifubao, JD.com Online and Yifubao (易付寶), which provided diversified payment means for the Bank's cards as well as enhanced customer's payment experience.

Telephone banking

We offer 7 days x 24 hours telephone banking services to our customers through the nation-wide customer service hotline 4000-967585. Our services include account inquiries, loss reporting, bill payment, loan business, investment and wealth management, PIN services, credit card business, customer service inquiries and outbound calls. The customer service centre continued to enhance user experience and actively expand the business scope based on the customers' needs. In 2016, our telephone banking service department handled a total of 2.2366 million cases.

WeChat Banking

Since the launch of the Bank's WeChat Banking on October 25, 2013, the Bank's WeChat Banking business has recorded a total of 159,800 followers as at December 31, 2016. WeChat Banking provides customers with account balance inquiry service, transaction details and the Bank's investment updates. On September 18, 2016, the WeChat Banking introduced the credit card function, through which users can bind credit cards to their accounts and use functions such as points inquiries, bills checking, installment planning and repayment. On November 30, 2016, WeChat Banking introduced medical appointment function to help the Bank's clients to solve difficulties in medical appointments.

Ding Rong Yi

The Bank's internet financial service platform "Ding Rong Yi (鼎融易)" focus on providing "Internet plus" financial services to community residents, business logistics, medium, small and micro-sized enterprises. It provides online account opening, online financial management, convenient payment, E-commerce service, order matching, online transactions, logistics and distribution, warehousing management and other diversified services features. It is a comprehensive Internet financial service platform covering financial, utilities and social networking services. As at December 31, 2016, the total number of Ding Rong Yi account registers reached 242,200, with an aggregate number of transactions of 525,000 and total transaction amount of RMB9.689 billion.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.6 Operations of Subsidiaries

9.6.1 Operations of subsidiaries

As at the end of the Reporting Period, the Bank held 50.2% equity interest in Fugou Zhengyin County Bank Co., Ltd., a subsidiary of the Bank with a registered capital of RMB60 million, the principal businesses of which include: (1) taking deposits from the public; (2) extending short-term, medium-term and long-term loans; (3) effecting domestic settlements; (4) accepting and discounting bills; (5) interbank borrowings; (6) debt-card business; (7) acting as the issuing agent, cashing agent and the underwriter of government bonds; (8) collecting agent; (9) other businesses approved by the banking regulatory authorities (involving the operations authorised under valid permits or licensed operations).

Fugou Zhengyin County Bank Co., Ltd. is featured by its short decision-making chain, flexible credit policy, and the capability to adapt its operation process to match the financial needs of the agricultural industry. As of the end of 2016, the bank has accumulated total assets of RMB353 million, total loans of RMB166 million and total deposits of RMB213 million and the non-performing loan ratio was zero, while major indicators were in compliance with the regulatory requirements.

At the end of the Reporting Period, the Bank established Jiuding Financial Leasing Company with an initial registered capital of RMB1 billion and its shareholding of 51% was held by the Bank. The establishment of Jiuding Financial Leasing Company was approved by the CBRC on February 5, 2016. The operation approval for the Jiuding Financial Leasing Company was granted by the CBRC Henan Office on March 18, 2016. The Jiuding Financial Leasing Company has officially been in operation since March 23, 2016. For details of the approval for the establishment and official opening of Jiuding Financial Leasing Company, please refer to the announcements of the Bank published on February 17, 2016 and March 23, 2016. The principal businesses of Jiuding Financial Leasing Company include: (1) financial leasing business; (2) outward or inward transfer of financial leasing assets; (3) fixed income securities investment business; (4) acceptance of leasing deposits from leasees; (5) intake of fixed deposits with maturity of 3 months or above from non-bank Shareholders; (6) interbank borrowings; (7) borrowings from financial institutions; (8) offshore borrowings; (9) leasing asset sale and disposal business; (10) economic consultancy; (11) other businesses approved by CBRC (Items which require approvals under the law shall be subject to the approval from relevant departments before the commencement of business).

Since its operation of business on March 23, 2016, Jiuding Financial Leasing Company has upheld the business philosophy of “innovative, efficient, synergistic and stable operation”, and adhered to the strategic positioning of “intensively developing Zhengzhou, consolidating its position in Henan, penetrating to other regions in the PRC, focusing on specialization and featured businesses”. As at December 31, 2016, the total assets of Jiuding Financial Leasing Company amounted to RMB8.424 billion, balance of financial leasing amounted to RMB8.019 billion and net profit amounted to RMB98.4071 million, respectively.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.6.2 Operations of investee companies

As at the end of the Reporting Period, the Bank held 18.53%, 20.00%, 30.00% and 20.00% equity interests in Zhongmu Zhengyin County Bank Co., Ltd., Xinmi Zhengyin County Bank Co., Ltd., Yanling Zhengyin County Bank Co., Ltd. and Xinzheng Zhengyin County Bank Co., Ltd. respectively. The total asset value of the four county banks reached RMB17.141 billion, total deposits reached RMB15.336 billion and total loans reached RMB9.705 billion.

Since the establishment of Zhongmu Zhengyin County Bank Co., Ltd. in 2009, it has been committed to providing services to the three rural sectors ("San Nong") with a market position targeting small- and medium-size customers. Led by the gradual expansion of the asset size, a more balanced structure of deposits and loans and stronger support to the agricultural sector, the return on equity improved every year. Therefore, Zhongmu Zhengyin County Bank Co., Ltd. was renowned as one of the leading industry players among all county banks in the country in terms of comprehensive strength.

9.7 Risk Management

During the Reporting Period, the Bank focused on further reinforcing its foundation, tightening management, building a strong head office, pushing forward transformation in development and laying emphasis on innovation, differential operation and risk control and prevention, to further deepen the construction of our comprehensive risk management system as well as the institutional, system and risk culture build-up so that the risk management capability was enhanced steadily.

9.7.1 Credit risk

Credit risk refers to the risk of loss from the failure by an obligator or counterparty to meet its obligations in accordance with agreed terms. We are exposed to credit risk primarily through our loan portfolio, investment portfolio, guarantees and other on-and off-balance sheet credit risk exposures.

We have built an all-round credit risk management infrastructure to cover our entire credit business processes, with established policies and procedures to identify, assess, measure, monitor, mitigate and control credit risks. We have established a bank-wide standardised authorisation and credit extension management system. We seek to improve our overall credit risk management capabilities through building up an internal customer rating system, updating internal rating model, upgrading credit risk executive information system, and further tightening our credit review and monitoring. In 2016, in accordance with the management needs of the Bank, the functions of asset security and collection and disposal of non-performing loans of the risk management department was under the management of the asset security department, the legal department was renamed as the asset security department and was responsible for the asset security and collection and disposal of non-performing loans of the Bank.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.7.2 Market risk

Market risk is the risk of loss in on- and off-balance-sheet positions arising from movements in market prices. We are exposed to market risks through our banking portfolio and trading portfolio. The primary market risks associated with our banking portfolio are interest rate risk and exchange rate risk. The primary risk associated with our trading portfolio is fluctuations in the market value of our trading positions, which are affected by movements in observable market variables such as interest rates and exchange rates. We seek to control potential market losses within acceptable limits based on our risk appetite while we seek to maximise risk-adjusted returns.

Our organisational structure for market risk management covers the front, middle and back offices. Our Board bears the ultimate responsibility for supervising our market risk management. Our senior management is responsible for the implementation of market risk management strategies and policies approved by our Board. Market risk management is led by the risk management department, while the functions of market risk management are actually distributed among the risk management department, the financial planning department, the financial markets department, the interbank department, the trade finance department and the asset management department. To effectively perform its market risk management function, the risk management department has appointed designated market risk management personnel to the financial markets department to participate in the middle office management of the bond trading business in the financial markets department. Our market risk management consists of the identification, measuring, monitoring and control of market risk. We also set different authorised risk limits for various products based on factors such as our overall market risk tolerance level, business strategy as well as market conditions for specific products. We set different exposure limits and employ different quantitative measures to manage different types of market risk arising from our banking book and trading book.

Market risk associated with banking book

1. Interest rate risk

Interest rate risk associated with our banking book primarily refers to the risk of loss caused to the overall earnings and economic value of banking book due to adverse movements in various factors such as interest rate level and maturity mix. By carrying out proactive management, appropriate hedging and other means, the Bank keeps the negative impact of interest rate fluctuations on the earnings and economic value of banking book under control within an acceptable limit.

2. Exchange rate risk

Exchange rate risk refers to the risk arising from the time and regional differences in exchange rate fluctuations as well as the mismatch between currency and maturity mix. We are exposed to exchange rate risk primarily through trading risk and conversion risk. Trading risk refers to the risk of loss caused to the Bank due to exchange rate fluctuations when customers are carrying out spot or forward foreign exchange trading, lending, investment and exchange activities. Conversion risk refers to foreign exchange gains and losses due to exchange rate fluctuations when assets and liabilities in foreign currencies in the Bank's balance sheet are converted into Renminbi at the end of an accounting period.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Market risk associated with trading book

Market risk associated with our trading book mainly refers to the changes in the asset value of the financial products in the trading book caused by the changes in market interest rates. By setting the interest rate-sensitive indicators, cut-loss limits and other market risk limits, the Bank revalues the market value of the assets in the trading book on a daily basis and conducts stress tests on a regular basis so that the market risk associated with the trading book is overall controllable.

9.7.3 Operational risk

Operational risk refers to the risk of loss that may be incurred due to inadequate or failed internal procedures, personnel or information technology systems, or external events. We are exposed to operational risk primarily through internal and external frauds, worksite safety failures, business interruptions, damage of tangible assets and failure in information technology system. Our operational risk management objectives are to establish a sound operational risk management framework to carry out effective management of operational risks and to minimise losses from operational risk.

The Bank continuously promotes the construction of operational risk management system, improve three operational risk tools and capital measurement. We have established a sound operational risk reporting system to submit reports to the Board, the Board of Supervisors and senior management on a timely basis. Operational risk inspections are conducted to prevent risk hazards and significant operational risks in key areas.

9.7.4 Liquidity risk

Liquidity risk refers to the risk of failure to acquire sufficient funds in time or failure to acquire sufficient funds at a reasonable cost to fulfil payment obligations. Factors affecting our liquidity include the maturity mix of our assets and liabilities and changes to banking regulations, such as changes in the requirements relating to loan-to-deposit ratio and statutory deposit reserve ratio. We are exposed to liquidity risk primarily in the funding of our lending, trading and investment activities, as well as in the management of our cash flow positions. The objectives of our liquidity risk management are to ensure the availability of adequate funding at all times to meet our payment obligations and fund our business operations on a timely basis.

Our organisational structure for liquidity risk management is formed on the basis of separation of the responsibilities for the formulation, implementation and supervision of liquidity risk management policies and procedures. The Board bears the ultimate responsibility for our liquidity risk management. The Risk Management Committee under the Board is responsible for approving the liquidity risk management policies and strategies developed by the senior management. The Asset and Liability Management Committee under our senior management is responsible for the management of liquidity risk across the Bank, specifically, responsible for formulating our liquidity management policies and leading the implementation of these policies. The Board of Supervisors is responsible for supervising the Board and senior management in carrying out liquidity risk management on a day-to-day basis. Relevant departments, such as the financial planning department, the financial markets department, the interbank department and the asset management department, are responsible for liquidity risk management on a day-to-day basis.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

We manage our liquidity risk mainly through monitoring the maturities of our assets and liabilities and step up our efforts to improve our liquidity risk management. We have implemented the heightened regulatory requirements through closely monitoring various liquidity ratios, formulating contingency plans and strengthening liquidity risk management and stress tests. At present, we manage our liquidity risk through liquidity stress tests, liquidity limit system, the second generation of China National Advanced Payment System, position reporting and certain other tools. We are developing the cash flow analysis and management tools.

9.7.5 Information technology risk

Information technology risk refers to the operational, legal, reputational and other risks caused by natural factors, human factors, technical loopholes and flawed management in the course of our use of information technology. Our objectives for information technology risk management are to identify, assess, monitor and control information technology risks by establishing an effective mechanism to operate our business in a safe, continuous and stable environment. We seek to operate our business in a safe and robust information technology environment and drive business innovation with advanced information technologies. The Information Technology Management Committee under our senior management is responsible for coordinating on the performance of various responsibilities for information technology management, to ensure the allocation of adequate human and financial resources, and maintaining a stable and secure information technology environment. The information technology department is responsible for the implementation of information technology risk management policies and procedures.

Under the leadership of the Board and senior management, we have established a tiered information technology risk management framework based on the “three lines of defence”, namely, the business, risk management and audit. In addition, we seek to establish effective infrastructures to identify, monitor and control information technology risk and facilitate the safe, continuous and stable operation of our information technology system and to improve our sustainability. We establish a comprehensive information technology risk management system through the development, operation and maintenance of information system, management of information security and business continuity. In respect of the operation and maintenance management of our information technology system, we seek to improve the overall stability and availability of our information technology system by improving its structure and preventive maintenance. In respect of information security, we seek to build up an information security control mechanism and technology protection methodologies through establishing effective processes for management of user authentication and access control, rigorously implementing standard operation processes, managing transactions and activity logs and employing encryption techniques. In respect of business continuity, we have built a local application disaster recovery centre in Zhengzhou and a non-local disaster recovery data centre in Dongguan to ensure business continuity and reliability.

In 2016, the Bank conducted the business management training on a consecutive basis, which formulated the consecutive business scenarios of the year, and carried out electronic business interruption emergency drills with a satisfactory result.

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

9.7.6 Reputational risk

Reputational risk refers to the risk of negative publicity and comments on the Bank due to our operations, management and other activities or external events. Our objectives for reputational risk management are to identify, monitor, control and eliminate reputational risk by establishing a positive, reasonable and effective mechanism for reputational risk management in order to build and maintain our good corporate image and boost our sustainable development.

We have established a tiered organisational framework for reputational risk management. The Board bears the ultimate responsibility for reputation risk management and our senior management is responsible for our reputational risk management. We have set up a Reputational Risk Management Committee under our senior management to ensure the normal and effective operation of the reputational risk management system. The general office at the head office takes the lead in managing our reputation risk and is responsible for the day-to-day management of reputational risk.

9.7.7 Implementation of the New Basel Capital Accord

Since the beginning of 2013, the Bank has been committed to implementing the New Basel Capital Accord by selecting a development plan which matches the Bank's business strategy, scale and complexity, and by actively formulating and implementing the Foundation Internal Rating Based Approach (IRB) for capital measurement in accordance with the Measures Governing the New Capital of Commercial Banks (Trial Implementation) and other regulatory policies. By enhancing corporate governance structure, establishing a sound risk management system and improving information technology system, the Bank aimed to meet all the regulatory requirements. Following the commencement of a comprehensive risk management project in 2013, the Bank has currently completed the establishment of an application scorecard system for the retail credit business, a collateral management system, a standard approach to operational risk and Governance, Risk & Compliance (GRC) system, an interest rate risk system for bank accounts, the consultation on liquidity risk management, the development of a credit rating model for debts of the treasury business and the development of a scoring model for credit cards. Meanwhile, the Bank is also active in other projects such as the standard approach to market risk, Risk-Weighted Assets (RWA) and Internal Capital Adequacy Assessment Process (ICAAP). In 2016, the Bank also set up a leading group for the implementation of the new capital agreement to promote the construction of the new capital agreement of the Bank at a higher stage.

CHAPTER VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

1 CHANGES IN SHARE CAPITAL OF THE BANK

	December 31, 2015		Changes during the Reporting Period	December 31, 2016	
	Number (Shares)	Proportion (%)	Number (Shares)	Number (Shares)	Proportion (%)
Domestic Shares	3,821,931,900	74.33	(18,000,000) ¹	3,803,931,900	71.48
Overseas listed foreign Shares	1,320,000,000	25.67	198,000,000 ²	1,518,000,000	28.52
Total number of Shares	5,141,931,900	100.00		5,321,931,900	100.00

1 Pursuant to the exercise of the over-allotment option with a total of 180,000,000 H shares, in accordance with relevant PRC regulations regarding the transfer of state-owned shares and the "Letter on Issues Regarding the Reduction and Transfer of State-owned Shares of Bank of Zhengzhou Co., Ltd. For Its Listing in Hong Kong" (Shebaojijinf [2015] No. 176) of National Council for Social Security Fund ("the NSSF"), the Selling Shareholders are required to sell an aggregate of 18,000,000 additional Sale Shares (being the number of H Shares converted from Domestic Shares on a one-for-one basis in accordance with the relevant PRC regulations), equivalent to 10% of the number of the H Shares to be issued by the Bank pursuant to the exercise of the over-allotment option, and remit the proceeds to the account designated by the NSSF.

2 Upon completion of the H Shares Public Offering, the Bank issued and sold 198,000,000 H shares pursuant to the exercise of the over-allotment option on January 15, 2016.

2 INFORMATION ON SHAREHOLDERS

2.1 Total number of Shareholders during the Reporting Period

As at December 31, 2016, the Bank had a total of 3,626 holders of Domestic Shares.

CHAPTER VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

2.2 Shareholdings of Shareholders

Shareholdings of Top 10 Shareholders of Non-Overseas Listed Domestic Shares

At December 31, 2016, shareholdings of top 10 Shareholders of non-overseas listed Domestic Shares were as follows:

Number	Name of Shareholder	Nature of Shareholder	Number of Shares held at the end of the period (Shares)	Shareholding Percentage of total number of issued Shares (%)	Type of Shares	Pledged or frozen (Shares)
1	Zhengzhou Finance Bureau (鄭州市財政局)	State-owned	490,904,755	9.22	Domestic Shares	220,900,000
2	Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司)	Domestic non-state owned legal person	262,000,000	4.92	Domestic Shares	262,000,000
3	Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司)	Domestic non-state owned legal person	250,000,000	4.70	Domestic Shares	124,999,990
4	Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司)	Domestic non-state owned legal person	226,000,000	4.25	Domestic Shares	225,000,000
5	Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)	State-owned legal person	215,678,764	4.05	Domestic Shares	–
6	Zhongyuan Trust Co., Ltd. ¹ (中原信託有限公司)	Domestic non-state owned legal person	205,000,000	3.85	Domestic Shares	–
7	Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司)	Domestic non-state owned legal person	199,046,474	3.74	Domestic Shares	149,500,000
8	Bridge Trust Co., Ltd. (百瑞信託有限責任公司)	State-owned legal person	114,697,149	2.16	Domestic Shares	–
9	Henan Shengrun Holding Group Co., Ltd. (河南盛潤控股集團有限公司)	Domestic non-state owned legal person	100,000,000	1.88	Domestic Shares	–
10	Henan Masahiro Properties Limited (河南正弘置業有限公司)	Domestic non-state owned legal person	100,000,000	1.88	Domestic Shares	49,999,990

¹ Zhongyuan Trust Co., Ltd. (中原信託有限公司) has acquired 9,426,471 domestic shares of the Bank held by Xinxiang Jingshun Textile Co., Ltd. (新鄉市景順紡織有限公司) pursuant to the agreement dated January 23, 2017 and the aggregate of 25,000,000 domestic Shares of the Bank held by Henan Hongqi Coal Co., Ltd. (河南紅旗煤業股份有限公司) on February 17 and February 23, 2017 respectively. Upon completion of the share transfer, Zhongyuan Trust Co., Ltd. (中原信託有限公司) will hold 239,426,471 Shares of the Bank.

CHAPTER VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

Interests and short positions of substantial Shareholders and other persons in the Shares and underlying Shares

Based on the knowledge of the Directors or chief executive of the Bank, as at December 31, 2016, the following persons, other than Directors, Supervisors and chief executive of the Bank, had, or were deemed or taken to have interests or short positions in the Shares and underlying Shares of the Bank which would fall to be disclosed to the Bank and Hong Kong Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Bank under Section 336 of the SFO were as follows:

Name of Substantial Shareholder	Class of Shares	Long/ Short positions	Nature	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued Shares (%)
Zhengzhou Finance Bureau (鄭州市財政局)	Domestic Shares	Long	Beneficial owner	743,134,808	19.53	13.96
Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司)	Domestic Shares	Long	Beneficial owner	262,000,000	6.89	4.92
Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司)	Domestic Shares	Long	Interest of controlled corporation ¹	262,000,000	6.89	4.92
ZHANG Xinya (張欣雅)	Domestic Shares	Long	Interest of controlled corporation ²	262,000,000	6.89	4.92
Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司)	Domestic Shares	Long	Beneficial owner	250,000,000	6.57	4.70
Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限公司)	Domestic Shares	Long	Interest of controlled corporation ³	250,000,000	6.57	4.70
ZHANG Huiqi (張惠琪)	Domestic Shares	Long	Interest of controlled corporation ³	250,000,000	6.57	4.70
Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司)	Domestic Shares	Long	Beneficial owner ⁴	226,000,000	5.94	4.25
DU Liling (杜麗玲)	Domestic Shares	Long	Interest of controlled corporation ⁵	226,000,000	5.94	4.25
WANG Meilan (王梅蘭)	Domestic Shares	Long	Interest of controlled corporation ⁵	226,000,000	5.94	4.25
Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司)	Domestic Shares	Long	Beneficial owner ⁶	215,678,764	5.67	4.05
Zhongyuan Trust Co., Ltd. (中原信託有限公司)	Domestic Shares	Long	Beneficial owner ⁷	205,000,000	5.39	3.85
Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司)	Domestic Shares	Long	Interest of controlled corporation ⁸	205,000,000	5.39	3.85

CHAPTER VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

Name of Substantial Shareholder	Class of Shares	Long/ Short positions	Nature	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued Shares (%)
Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司)	Domestic Shares	Long	Interest of controlled corporation ⁸	205,000,000	5.39	3.85
Henan Investment Group Co., Ltd. (河南投資集團有限公司)	Domestic Shares	Long	Beneficial owner ⁹	294,769,212	7.75	5.54
Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司)	Domestic Shares	Long	Interest of controlled corporation ⁹ Beneficial owner ¹⁰	199,046,474	5.23	3.74
Power Universal Golden Limited (力通金有限公司)	H Shares	Long	Beneficial owner ¹¹	254,500,000	16.77	4.78
Amuse Peace Limited (樂和有限公司)	H Shares	Long	Interest of controlled corporation ¹¹	254,500,000	16.77	4.78
ZHANG Xiaodong (張曉東)	H Shares	Long	Interest of controlled corporation ¹¹	254,500,000	16.77	4.78
China Goldjoy Securities Limited (中國金洋證券有限公司) (formerly known as China Yinsheng Securities Limited (中國銀盛證券有限公司))	H Shares	Long	Custodian	218,289,000	14.38	4.10
Hong Kong Xingrui International Investment Co., Limited (香港興瑞國際投資有限公司)	H Shares	Long	Beneficial owner	100,000,000	6.58	1.88
Zhengzhou Airport Zone Xingrui Industrial Co., Limited (鄭州航空港區興瑞實業有限公司)	H Shares	Long	Interest of controlled corporation ¹²	100,000,000	6.58	1.88
Zhengzhou Airport Zone Xinggang Investment and Development Co., Limited (鄭州航空港興港投資發展有限公司) (formerly known as Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Xinggang Investment and Development Co., Limited (鄭州新鄭綜合保稅區(鄭州航空港區)興港投資發展有限公司))	H Shares	Long	Interest of controlled corporation ¹²	100,000,000	6.58	1.88

CHAPTER VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

Name of Substantial Shareholder	Class of Shares	Long/ Short positions	Nature	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued Shares (%)
Shenzhen Qianhai Ruimaotong Supply Chain Platform Service Co., Limited (深圳前海瑞茂通供應鏈平台服務有限公司)	H Shares	Long	Interest of controlled corporation ¹²	100,000,000	6.58	1.88
Jiangsu Jinhe Electricity and Fuel Limited (江蘇晉和電力燃料有限公司)	H Shares	Long	Interest of controlled corporation ¹²	100,000,000	6.58	1.88
Ruimaotong Supply Chain Management Co., Limited (瑞茂通供應鏈管理股份有限公司)	H Shares	Long	Interest of controlled corporation ¹²	100,000,000	6.58	1.88
Zhengzhou Ruimaotong Supply Chain Management Company Limited (鄭州瑞茂通供應鏈有限公司)	H Shares	Long	Interest of controlled corporation ¹²	100,000,000	6.58	1.88
Zhengzhou Zhongrui Investment Company Limited (鄭州中瑞投資有限公司) (formerly known as Henan Zhongrui Investment Company Limited (河南中瑞投資有限公司))	H Shares	Long	Interest of controlled corporation ¹²	100,000,000	6.58	1.88
WAN Yongxing (萬永興)	H Shares	Long	Interest of controlled corporation ¹²	100,000,000	6.58	1.88
Zhengzhou Zhengdong Construction Investment Corporation (鄭州市鄭東新區建設開發投資總公司)	H Shares	Long	Beneficial owner ¹³	100,000,000	6.58	1.88
Beijing Shang Finance Management Co., Ltd. (北京尚融資本管理有限公司)	H Shares	Long	Interest of controlled corporation ¹⁴	129,000,000	8.50	2.42
WEI Lidong (尉立東)	H Shares	Long	Interest of controlled corporation ¹⁴	129,000,000	8.50	2.42
Henan Hongbao Group Company Limited (河南鴻寶集團有限公司)	H Shares	Long	Beneficial owner	99,000,000	6.52	1.86
YUAN Guibao (袁桂寶)	H Shares	Long	Interest of controlled corporation ¹⁵	99,000,000	6.52	1.86

CHAPTER VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

- 1 The 65,258,982 Shares, 50,000,000 Shares, 85,133,944 Shares, 50,000,000 Shares and 1,837,127 Shares of the Bank are held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司) and Zhengzhou City Sewage Purification Co., Ltd. (鄭州市污水淨化有限公司), Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司) and Zhengzhou Running Water Investment Holdings Co., Ltd. (鄭州自來水投資控股有限公司), respectively, each of which is directly or indirectly wholly-owned by Zhengzhou Finance Bureau (鄭州市財政局). By virtue of SFO, Zhengzhou Finance Bureau (鄭州市財政局) is deemed to be interested in the Shares held by Zhengzhou Development & Investment Group Co., Ltd. (鄭州發展投資集團有限公司), Zhengzhou City Sanitation & Cleaning Co., Ltd. (鄭州市環衛清潔有限公司), Zhengzhou City Sewage Purification Co., Ltd. (鄭州市污水淨化有限公司), Zhengzhou Municipal Construction Engineering General Corporation (鄭州市市政工程總公司) and Zhengzhou Running Water Investment Holdings Co., Ltd. (鄭州自來水投資控股有限公司). FAN Yutao (樊玉濤), our non-executive Director, is the deputy Director of Zhengzhou Finance Bureau (鄭州市財政局).

Subsequent to the Reporting Period and up to the Latest Practicable Date, Zhengzhou Finance Bureau ceases to own, whether direct or indirect, Zhengzhou City Sewage Purification Co., Ltd. (鄭州市污水淨化有限公司) and Zhengzhou Running Water Investment Holdings Co., Ltd. (鄭州自來水投資控股有限公司) due to the changes of shareholding structure. By virtue of SFO, Zhengzhou Finance Bureau is not deemed to be interested in the Shares of the Bank held by Zhengzhou City Sewage Purification Co., Ltd. and Zhengzhou Running Water Investment Holdings Co., Ltd..
- 2 Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司) is wholly-owned by Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司), which in turn was owned by ZHANG Xinya (張欣雅) as to 80% of its shares at the end of the Reporting Period. By virtue of SFO, Henan Yutai Investment & Development Co., Ltd. (河南省豫泰投資發展集團有限公司) and ZHANG Xinya (張欣雅) are deemed to be interested in the Shares held by Yutai International (Henan) Real Estate Development Co., Ltd. (豫泰國際(河南)房地產開發有限公司).
- 3 Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司) is owned by Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限責任公司) as to 97.8%. Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限責任公司) is in turn owned by ZHANG Huiqi (張惠琪) as to 90%. By virtue of SFO, Henan Zensun Enterprise Development Co., Ltd. (河南正商企業發展有限責任公司) and ZHANG Huiqi (張惠琪) are deemed to be interested in the Shares held by Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司). ZHANG Huiqi (張惠琪) is the daughter, being above the age of 18, of ZHANG Jiangguo (張敬國), our non-executive Director.
- 4 MA Jinwei (馬金偉), our non-executive Director, is the general manager of Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司).
- 5 Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司) is owned as to 50% and 50% by DU Liling (杜麗玲) and WANG Meilan (王梅蘭). By virtue of SFO, each of DU Liling (杜麗玲) and WANG Meilan (王梅蘭) is deemed to be interested in the Shares held by Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司).
- 6 LIANG Songwei (梁嵩巍), our non-executive Director, is the chairman of Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司).
- 7 Zhongyuan Trust Co., Ltd. (中原信託有限公司) has acquired 9,426,471 domestic Shares of the Bank held by Xinxiang Jingshun Textile Co., Ltd. (新鄉市景順紡織有限公司) pursuant to the agreement dated January 23, 2017 and 25,000,000 domestic Shares of the Bank held by Henan Hongqi Coal Co., Ltd. (河南紅旗煤業股份有限公司) on February 17 and February 23, 2017 respectively. Upon completion of the share transfer, Zhongyuan Trust Co., Ltd. (中原信託有限公司) will hold 239,426,471 Shares of the Bank.
- 8 Zhongyuan Trust Co., Ltd. (中原信託有限公司) is owned by Henan Investment Group Co., Ltd. (河南投資集團有限公司) and Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司) as to approximately 46.43% and 31.91%, respectively. Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司) is owned by Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司) as to approximately 45.09%. By virtue of SFO, Henan Investment Group Co., Ltd. (河南投資集團有限公司), Henan Zhongyuan Express Co., Ltd. (河南中原高速公路股份有限公司) and Henan Transport Investment Group Co., Ltd. (河南交通投資集團有限公司) are deemed to be interested in the Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司). Ji Hongjun (姬宏俊), our non-executive Director, is the vice president of Zhongyuan Trust Co., Ltd. (中原信託有限公司).
- 9 These 294,769,212 Shares are directly or indirectly held by Henan Investment Group Co., Ltd. (河南投資集團有限公司), including 89,769,212 Shares directly held by Henan Investment Group Co., Ltd. (河南投資集團有限公司) and 205,000,000 Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司) which is owned as to approximately 46.43% by Henan Investment Group Co., Ltd. (河南投資集團有限公司). By virtue of SFO, Henan Investment Group Co., Ltd. (河南投資集團有限公司) is deemed to be interested in the Shares held by Zhongyuan Trust Co., Ltd. (中原信託有限公司).

CHAPTER VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

- 10 Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司) is owned as to 90% by ZHU Zhihui (朱志暉), our Supervisor, and 10% by his spouse, WANG Linhui (王林輝). By virtue of SFO, ZHU Zhihui (朱志暉) is deemed to be interested in the Shares held by Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司). ZHU Zhihui (朱志暉), our Supervisor, is the chairman of the board of directors of Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司).
- 11 These 254,500,000 Shares are directly held by Power Universal Golden Limited, which in turn is wholly-owned by Amuse Peace Limited. Amuse Peace Limited is wholly-owned by ZHANG Xiaodong (張曉東). By virtue of SFO, Amuse Peace Limited and ZHANG Xiaodong (張曉東) are deemed to be interested in the Shares held by Power Universal Golden Limited.
- Subsequent to the Reporting Period and up to the Latest Practicable Date, Power Universal Golden Limited is wholly held by Plan Marvel Investment Limited, which in turn is wholly-owned by Ding Pengyun (丁鵬雲). By virtue of SFO, Plan Marvel Investment Limited and Ding Pengyun (丁鵬雲) are deemed to be interested in the Shares held by Power Universal Golden Limited, and Amuse Peace Limited and Zhang Xiaodong (張曉東) cease to have any interest in the Shares held by Power Universal Golden Limited.
- 12 Hong Kong Xingrui International Investment Co., Limited (香港興瑞國際投資有限公司) ("**Hong Kong Xingrui**") is wholly-owned by Zhengzhou Airport Zone Xingrui Industrial Co., Limited (鄭州航空港區興瑞實業有限公司) ("**Xingrui Industrial**"), being a state-owned company under the Zhengzhou Airport Zone Economic Integrated Experimental Zone (Zhengzhou Xinzheng Integrated Free Trade Zone) Management Committee (鄭州航空港經濟綜合實驗區(鄭州新鄭綜合保稅區)管理委員會), which was formerly known as Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Management Committee (鄭州新鄭綜合保稅區(鄭州航空港區)管理委員會). Xingrui Industrial is owned as to 51% and 49% by Zhengzhou Airport Zone Xinggang Investment Co., Limited (鄭州航空港興港投資發展有限公司) (formerly known as: Zhengzhou Xinzheng Integrated Free Trade Zone (Zhengzhou Airport Zone) Xinggang Investment and Development Co., Limited (鄭州新鄭綜合保稅區(鄭州航空港區)興港投資發展有限公司) ("**Zhengzhou Xinggang**"), and Shenzhen Qianhai Ruimaotong Supply Chain Platform Service Co., Limited (深圳前海瑞茂通供應鏈平台服務有限公司) ("**Ruimaotong**"). Ruimaotong is wholly-owned by Jiangsu Jinhe Electricity and Fuel Limited (江蘇晉和電力燃料有限公司) ("**Jiangsu Jinhe**"), being a company listed on the Shanghai Stock Exchange, which is in turn wholly-owned by Ruimaotong Supply Chain Management Co., Limited (瑞茂通供應鏈管理股份有限公司) ("**Ruimaotong Supply Chain Management**"). Ruimaotong Supply Chain Management is owned as to 60.76% by Zhengzhou Ruimaotong Supply Chain Management Company Limited (鄭州瑞茂通供應鏈有限公司) ("**Zhengzhou Ruimaotong**"). Zhengzhou Ruimaotong is wholly-owned by Zhengzhou Zhongrui Investment Company Limited (鄭州中瑞投資有限公司) (formerly known as Henan Zhongrui Investment Company Limited (河南中瑞投資有限公司)) ("**Zhengzhou Zhongrui**"), which is owned as to 70% by WAN Yongxing (萬永興). By virtue of SFO, Xingrui Industrial, Zhengzhou Xinggang, Ruimaotong, Jiangsu Jinhe, Ruimaotong Supply Chain Management, Zhengzhou Ruimaotong, Zhengzhou Zhongrui and WAN Yongxing (萬永興) are deemed to be interested in the Shares held by Hong Kong Xingrui.
- 13 Zhengzhou Zhengdong New District Construction and Development Investment Corporation (鄭州市鄭東新區建設開發投資總公司) is established by the Zhengzhou Zhengdong New District Management Committee (鄭州市鄭東新區管理委員會).
- 14 Beijing Shang Finance Management Co., Ltd is owned as to 99.83% by Mr. WEI Lidong (尉立東) and Beijing Shang Finance Management Co., Ltd. holds 129,000,000 Shares of the Bank through certain subsidiaries.
- 15 Henan Hongbao Group Company Limited is owned by Yuan Guibao (袁桂寶) as to 39%. By virtue of SFO, Yuan Guibao is deemed to be interested in the Shares held by Henan Hongbao Group Company Limited.

Save as disclosed above, as at December 31, 2016, the Bank is not aware of any other person (other than the Directors, Supervisors and the chief executive of the Bank) having any interests or short positions in the Shares or underlying Shares of the Bank as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

CHAPTER VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS (Continued)

3 HOLDERS WITH 5% OR MORE SHAREHOLDING IN THE BANK

As at the end of the Reporting Period, Zhengzhou Finance Bureau directly held 490,904,755 Shares, accounting for 9.22% of the total issued Shares of the Bank.

4 PLEDGE AND FREEZING OF SHARES OF THE BANK

As at the end of the Reporting Period, to the knowledge of the Bank, 1,534,770,970 Shares of the Bank were subject to pledge (accounting for 28.84% of the total issued shares of the Bank), 62,749,657 Shares were subject to freezing. 20,055,000 Shares were subject to judicial auction during the Reporting Period.

5 INITIAL PUBLIC OFFERING OF A SHARES

The 2016 first extraordinary meeting was convened by the Bank on September 27, 2016, on which the proposal for initial public offering of A Shares was considered and approved. The Bank proposed to issue no more than 600,000,000 Shares, representing 15.77% and 11.27% of the Domestic Shares in issue and the total number of issued Shares respectively, as at the end of the Reporting Period. The actual total offering size will be determined through negotiations between the Board with the sponsor (lead underwriter) after being authorized by the shareholders' general meeting based on capital requirements of the Bank, the Bank's communications with the regulatory authorities and the prevailing market conditions at the time of the offering. For details in relation to, among others, the A Share Offering, please refer to the circular of the Bank dated August 13, 2016 and the announcements of the Bank dated July 16, 2016, August 13, 2016, September 27, 2016, December 23, 2016 and December 29, 2016 respectively.

The Bank has submitted application materials in respect of the A Share Offering, including the A Share prospectus, to the CSRC, and CSRC has accepted the application on December 22, 2016. The A Share prospectus has been published on the website of CSRC at www.csrc.gov.cn and pursuant to Rule 13.10B of the Listing Rules, the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.zzbk.cn on the same day. The Bank will disclose further details and development in respect of the A Share Offering as and when appropriate.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS

1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AS AT DECEMBER 31, 2016

Directors

Name	Gender	Date of birth	Position in the Bank	Term of Office
WANG Tianyu (王天宇)	M	March 1966	Chairman, Executive Director	2015.6.18–2018.6.18
SHEN Xueqing (申學清)	M	July 1965	President, Executive Director	2015.6.18–2018.6.18
FENG Tao (馮濤)	M	September 1963	Vice Chairman, Executive Director	2016.6.17–2018.6.18
FAN Yutao (樊玉濤)	M	May 1966	Non-executive Director	2015.9.8–2018.6.18
ZHANG Jingguo (張敬國)	M	July 1963	Non-executive Director	2015.6.18–2018.6.18
MA Jinwei (馬金偉)	M	January 1976	Non-executive Director	2015.9.8–2018.6.18
LIANG Songwei (梁嵩巍)	M	August 1968	Non-executive Director	2015.6.18–2018.6.18
JI Hongjun (姬宏俊)	M	June 1963	Non-executive Director	2015.6.18–2018.6.18
YU Zhanglin (于章林)	M	December 1966	Non-executive Director	2016.6.17–2018.6.18
WANG Shihaoi (王世豪)	M	April 1950	Independent non-executive Director	2015.6.18–2018.6.18
LI Huaizhen (李懷珍)	M	June 1957	Independent non-executive Director	2015.9.8–2018.6.18
XIE Taifeng (謝太峰)	M	August 1958	Independent non-executive Director	2015.9.8–2018.6.18
WU Gei (吳革)	M	May 1967	Independent non-executive Director	2015.9.8–2018.6.18
CHAN Mei Bo Mabel (陳美寶)	F	November 1971	Independent non-executive Director	2015.9.8–2018.6.18

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Supervisors

Name	Gender	Date of birth	Position in the Bank	Term of Office
ZHAO Lijuan (趙麗娟)	F	September 1962	Chairman of the Board of Supervisors and Shareholder Supervisor	2016.6.17–2018.6.18
MENG Jun (孟君)	F	November 1971	Shareholder Supervisor	2015.6.18–2018.6.18
ZHU Zhihui (朱志輝)	M	August 1969	Shareholder Supervisor	2015.6.18–2018.6.18
TANG Yunwei (湯雲為)	M	November 1944	External Supervisor	2015.6.18–2018.6.18
LIU Yuhui (劉煜輝)	M	October 1970	External Supervisor	2015.6.18–2017.6.24
XU Changsheng (徐長生)	M	October 1963	External Supervisor	2016.6.17–2018.6.18
DUAN Ping (段萍)	F	April 1966	Employee Supervisor	2015.6.18–2018.6.18
ZHANG Chunghe (張春閣)	F	December 1968	Employee Supervisor	2015.6.18–2018.6.18
CUI Huarui (崔華瑞)	F	May 1967	Employee Supervisor	2015.6.18–2018.6.18

Senior Management

Name	Gender	Date of birth	Position in the Bank
SHEN Xueqing (申學清)	M	July 1965	President
XIA Hua (夏華)	M	August 1967	Vice President
BAI Xiaofeng (白效鋒)	M	August 1967	Vice President
GUO Zhibin (郭志彬)	M	October 1968	Vice President
SUN Haigang (孫海剛)	M	August 1977	Assistant to President
ZHANG Wenjian (張文建)	M	June 1965	Assistant to President
MAO Yuezhen (毛月珍)	F	April 1963	Chief Accountant
FU Chunqiao (傅春喬)	M	October 1973	Secretary of the Board of Directors
JIANG Tao (姜濤)	M	April 1972	Chief Information Officer

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

2 CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

2.1 Changes of Directors during the Reporting Period

On March 26, 2016, Mr. MA Lei resigned as non-executive Director of the Bank due to work reallocation. Mr. YU Zhanglin was approved by the Board to be proposed to be appointed as non-executive Director of the Bank and the proposal was submitted to the 2015 Annual General Meeting of the Bank for approval. For details of the resignation of Mr. MA Lei and the proposed appointment of Mr. YU Zhanglin as a non-executive Director of the Bank, please refer to the announcement of resignation of non-executive Director and the proposed appointment of non-executive Director published by the Bank on March 26, 2016.

On April 16, 2016, Mr. XU Jianxin passed away due to illness and ceased to be the vice chairman and non-executive Director of the Bank.

On May 28, 2016, Mr. ZHANG Rongshun, an executive Director and vice chairman of the Bank submitted written resignation to the Board due to work reallocation. Mr. FENG Tao was approved by the Board to be proposed to be appointed as an executive Director of the Bank. For details of the resignation of Mr. ZHANG Rongshun and the proposed appointment of Mr. FENG Tao as an executive Director of the Bank, please refer to the announcement of resignation of executive Director and proposed appointment of executive Director published by the Bank on May 28, 2016.

Upon election by the 2015 Annual General Meeting of the Bank held on June 17, 2016, Mr. FENG Tao was elected as an executive Director of the Bank and Mr. YU Zhanglin was elected as a non-executive Director of the Bank. Their qualifications of directorship were approved by the China Banking Regulatory Commission Henan Office on August 4, 2016, and their terms shall be effective from the date of approval to the expiry of the term of office of the fifth session of the Board. It is expected to terminate on the date the 2017 Annual General Meeting shall be held. At the same time, Mr. ZHANG Rongshun resigned as a Director and the vice chairman of the Bank, with effect from August 4, 2016.

In the second Extraordinary Meeting 2016 for the fifth session of the Board held on June 17, 2016, Mr. FENG Tao was also elected as a vice chairman of the Bank. His qualification for the position of vice chairman was approved by the China Banking Regulatory Commission Henan Office on August 4, 2016.

For details of the approval of the qualifications of directorship for Mr. FENG Tao and Mr. YU Zhanglin, please refer to the announcement in relation to the approval of the qualification of directorship by the regulatory body published by the Bank on August 15, 2016.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

2.2 Changes of Supervisors during the Reporting Period

On March 28, 2016, Mr. FAN Dalu, the Bank's Supervisor resigned as a Supervisor and the chairman of the Board of Supervisors of the Bank due to work reallocation and Mr. ZHANG Shengping notified the Board of Supervisors of the Bank that he would resign from the position of Supervisor of the Bank due to relevant national restriction requirements. Ms. ZHAO Lijuan and Mr. XU Changsheng were approved by the Board of Supervisors to be proposed to be appointed as Supervisors of the Bank and the proposal was submitted to the 2015 Annual General Meeting of the Bank for approval. For details of the resignation of Mr. FAN Dalu and Mr. ZHANG Shengping and the proposed appointment of the Bank's Supervisors of Ms. ZHAO Lijuan and Mr. XU Changsheng, please refer to the announcement of the changes of Supervisors published on March 28, 2016.

Upon election by the 2015 Annual General Meeting of the Bank held on June 17, 2016, Ms. ZHAO Lijuan was elected as a shareholder Supervisor of the Bank and Mr. XU Changsheng was elected as an external Supervisor of the Bank. In the third Extraordinary Meeting in 2016 held by the fifth session of the Board of Supervisors of the Bank on June 17, 2016, Ms. ZHAO Lijuan was elected as the chairman of the Board of Supervisors.

2.3 Changes of Senior Management

In the announcement published by the Bank on March 28, 2016, Ms. ZHAO Lijuan submitted her resignation to the Bank for the position as vice president of the Bank due to work reallocation, and ceased to perform her duties as the vice president from March 26, 2016.

At the third meeting of the fifth session of the Board of Directors of the Bank held on October 24, 2015, Mr. JIANG Tao was appointed as Chief Information Officer of the Bank. His qualification of Chief Information Officer has been approved by the CSRC Henan Office.

3 BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. WANG Tianyu, aged 50, was appointed as an executive Director of the Bank in February 2012 and appointed as the chairman of the Bank in March 2011, being primarily responsible for the overall operations and strategic management of the Bank. In addition, Mr. WANG served as the president of the Bank from September 2005 to December 2011 and has served as the chairman of Zhongmu Zhengyin County Bank Co., Ltd. (中牟鄭銀村鎮銀行股份有限公司) since May 2012.

Mr. WANG has nearly 24 years of experience in banking business operations and management. He joined the Bank in August 1996 and had successively served as the president of Jingwu Road sub-branch and the vice president of the Bank from August 1996 to September 2005. Prior to that, Mr. WANG had served as the deputy director of Henan Province Yugong Urban Credit Cooperatives (河南省豫工城市信用社) from May 1993 to May 1996.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Mr. WANG graduated from Henan Institute of Finance and Economics (河南財經學院) (Henan, China) in June 1988, majoring in public finance, and obtained a bachelor's degree in economics. He obtained a master's degree in business administration from National University of Singapore (Singapore) in June 2006 and an executive master's degree in business administration from Tsinghua University (Beijing, China) in January 2015. He has been attending a program of advanced economics course for further studies (高級經濟學課程進修班) at School of Economics of Huazhong University of Science and Technology (Hubei, China) since July 2015. He has been a senior accountant accredited by the People's Government of Henan Province since December 1998. In addition, Mr. WANG has been a member of the 12th Congress of the People's Congress of Henan Province (第十二屆河南省人民代表大會) since January 2013 and was awarded the title of "National Model Worker" (全國勞動模範) in April 2015.

Mr. SHEN Xueqing, aged 51, was appointed as an executive Director of the Bank in February 2012 and appointed as the president of the Bank in December 2011. He is primarily responsible for the daily operations and management of the Bank.

Mr. SHEN has nearly 21 years of experience in banking business operations and management. He joined the Bank in December 2011. Prior to joining the Bank, he held a number of positions in Guangdong Development Bank Co., Ltd. (廣東發展銀行股份有限公司) (currently known as China Guangfa Bank Co., Ltd., 廣發銀行股份有限公司) from June 1996 to November 2011. He had served successively as the deputy manager and the manager of general office, the director of operations department and the assistant to sub-branch president of Huayuan Road sub-branch, Zhengzhou branch from June 1996 to October 2000, the assistant to sub-branch president, the vice president and the president of Dongming Road sub-branch, Zhengzhou branch from October 2000 to July 2004, the general manager of general office and the general manager of No. 3 corporate banking department of Zhengzhou branch from July 2004 to April 2006, the president of Anyang sub-branch from April 2006 to September 2009, and the vice president of Changsha branch from October 2009 to November 2011. Prior to that, he had worked in Financial and Trade Commission of Pingdingshan City, Henan Province (河南省平頂山市財政貿易委員會) and successively served as staff member, deputy chief and deputy director of general office from July 1990 to June 1996.

Mr. SHEN graduated from Henan Institute of Finance and Economics (河南財經學院) (Henan, China) in June 1990, majoring in finance, and obtained a bachelor's degree in economics. He obtained an executive master's degree in business administration degree from Xi'an Jiaotong University (Shaanxi, China) in December 2008, and an executive master's degree in business administration from Tsinghua University (Beijing, China) in July 2015. He has been a senior economist accredited by the People's Government of Henan Province since December 2005.

Mr. FENG Tao, aged 53, was appointed as an executive director and the vice chairman of the Bank in June 2016. He is primarily responsible for the operation of the internal audit office of the Board.

Mr. FENG has nearly 36 years of experience in the banking industry. He joined the Bank in June 2016. Prior to that, he had worked in Shangcheng County sub-branch of PBoC from December 1980 to August 1983 and served as the clerk, staff member, deputy chief staff member and chief staff member of PBoC Henan branch from July 1986 to December 1998; chief staff member of bank management department of PBoC Zhengzhou Central Sub-branch from December 1998 to September 2003; he had held several positions in CBRC Henan Bureau successively from September 2003 to May 2016 and during his tenure, he had served successively as principal staff member of city commercial banks supervision department, deputy director of logistics service center, deputy chief of No. 2 state-owned bank supervision department, deputy chief of No. 1 offsite supervision department, researcher of No. 1 offsite supervision department and researcher of state-owned bank supervision department from September 2003 to December 2012, chief of CBRC Jiaozuo Branch from December 2012 to February 2015, and chief of City Commercial Banks Regulatory Department from February 2015 to May 2016.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Mr. FENG studied finance in Henan College for Finance and Management Officials (河南金融管理幹部學院) (Henan, China) (radio and TV college) from August 1983 to July 1986, and graduated from Correspondence Education College of Central School of Communist Party of China (中共中央黨校函授學院) (Beijing, China) in December 1998, majoring in economic management (correspondence education). He has been an economist accredited by PBoC Henan office since October 1993.

Mr. FAN Yutao, aged 50, was appointed as a non-executive Director of the Bank in June 2015.

Mr. FAN has served as the deputy secretary of Zhengzhou Finance Bureau since February 2016. Prior to that, he had served as the staff member of budget section of Zhengzhou Finance Bureau from July 1988 to June 1994, the deputy chief of budget section of Zhengzhou Finance Bureau from June 1994 to April 2002, the chief of budget section of Zhengzhou Finance Bureau from April 2002 to April 2006 and the chief of treasury section of Zhengzhou Finance Bureau from April 2006 to July 2009, and the chief economist of Zhengzhou Finance Bureau between July 2009 and February 2016.

Mr. FAN graduated from Information Engineering College of the People's Liberation Army of the PRC (中國人民解放軍信息工程學院) (Henan, China) in July 1988, majoring in computer science and engineering, and obtained a bachelor's degree in engineering. He also obtained a completion certificate in accounting from Graduate School of Institute of Finance Science of the Ministry of Finance (財政部財政科學研究所研究生部) (Beijing, China) in July 2001.

Mr. ZHANG Jingguo, aged 53, was appointed as a non-executive Director of the Bank in February 2012.

Mr. ZHANG has served as the chairman and the chief executive officer of Henan Zensun Property Co., Ltd. (河南正商置業有限公司) since January 2001. He has served as the chairman, the executive director and the chief executive director of ZH International Holdings Ltd. (formerly known as Heng Fai Enterprises Limited, listed on the Hong Kong Stock Exchange, stock code: 00185) since July 2015. Prior to that, he had served as the deputy chief of Henan Household Appliances Industry Co., Ltd. (河南省五金家電工業公司) from July 1983 to June 1991, the director of Henan Light Industry Bureau (河南省輕工業廳) from July 1991 to April 1995 and the general manager of Henan Xingye Real Estate Development Co., Ltd. (河南興業房地產開發有限公司) from April 1995 to April 2001.

Mr. ZHANG graduated from the Zhengzhou University (Henan, China) in June 1983, majoring in wireless communication, and obtained a bachelor's degree in science. He also obtained a completion certificate in international trade from Renmin University of China (Beijing, China) in July 2001 and obtained an executive master's degree in business administration from Peking University (Beijing, China) in July 2013. He has been a senior engineer accredited by the People's Government of Henan Province since August 1997.

Mr. MA Jinwei, aged 41, was appointed as a non-executive Director of the Bank in June 2015.

Mr. MA has served as the general manager of Henan Chendong Industry Co., Ltd. (河南晨東實業有限公司) since May 2014. Prior to that, he had served as the chief accountant of the finance department and financial manager of Zhengzhou Yaxing Real Estate Development Co., Ltd. (鄭州亞星房地產開發有限公司) from July 1996 to May 2001, the staff of the group audit department of Henan Shuanghui Industry Group Co., Ltd. (河南省雙匯實業集團有限責任公司) and the financial director and secretary of the board of Hehan Shuanghui Real Estate Development Co., Ltd. (河南雙匯地產發展有限公司) from May 2001 to September 2003. He had successively served as the chief accountant of financial department, the deputy manager of financial department, the group financial manager, the financial director, the deputy general manager and the director of Henan Yinji Real Estate Development Co., Ltd. (河南銀基房地產開發有限公司) from October 2004 to May 2014.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Mr. MA graduated from Northeastern University (Liaoning, China) in June 2011, majoring in project management. He has been an intermediate level accountant accredited by the Ministry of Finance of the PRC since May 2002.

Mr. LIANG Songwei, aged 48, was appointed as a non-executive Director of the Bank in February 2012.

Mr. LIANG has served as the general manager of Zhengzhou Investment Holdings Co., Ltd. (鄭州投資控股有限公司) since November 2008, the director of the aforesaid company since December 2009 and the chairman of the aforesaid company since June 2015. He has served as the business manager of Henan Native Produce Import and Export Co., Ltd. (河南省土產進出口公司) from August 1989 to June 1993, the chairman of Henan Baihe International Highway Technology Co., Ltd. (河南百和國際公路科技有限公司) from July 1993 to August 2006 and the assistant to the general manager of Zhengzhou Baiwen Co., Ltd. (Group) (鄭州百文股份有限公司(集團)) since November 2001. He had served as the director and the deputy general manager of Zhengzhou Baiwen Group Co., Ltd. (鄭州百文集團有限公司) from August 2006 to October 2008, the director of Zhengzhou Middle and Small-sized Enterprises Guarantee Co., Ltd. (鄭州中小企業擔保有限公司) since June 2009 and the chairman of Zhengzhou Industry Development Guidance Fund Co., Ltd. (鄭州市產業發展引導基金有限公司) since January 2015.

Mr. LIANG graduated from Graduate School of Chinese Academy of Social Sciences (Beijing, China) in December 1998, majoring in literature and art. He graduated from University of International Business and Economics (Beijing, China) in June 2005, majoring in international trade.

Mr. JI Hongjun, aged 53, was appointed as a non-executive Director of the Bank in February 2012.

Mr. JI has successively served as the deputy general manager and the vice president of Zhongyuan Trust Co., Ltd. (中原信託有限公司) since December 2003, and the director of Great Wall Fund Management Co., Ltd. (長城基金管理有限公司) since December 2008. He had served as the non-executive director of Bank of China Travel Services Co., Ltd. Jiaozuo (焦作中旅銀行股份有限公司) from November 2012 to May 2016. He had served as the deputy chief of finance department of Henan Province Development and Planning Commission (河南省發展計劃委員會) from August 2000 to September 2003 (serving as the deputy chief of No. 1 credit loan section of Henan Branch of China Development Bank (國家開發銀行河南省分行) from September 2002 to September 2003), the deputy chief of fixed asset investment department of Henan Province Planning Commission (河南省計劃委員會) from February 1999 to August 2000, the deputy chief of senior officer department of Henan Province Planning Commission from April 1997 to February 1999, the principal staff member of foreign economy department of Henan Province Planning Economy Commission (河南省計劃經濟委員會) and Henan Province Planning Commission from April 1993 to April 1997, the deputy chief staff member of foreign economy department of Henan Province Planning Economy Commission from August 1991 to April 1993, the staff member of foreign economy department of Henan Province Planning Economy Commission from January 1989 to August 1991, the clerk of the finance department of Henan Province Planning Economy Commission from September 1987 to January 1989, and the staff of the finance and trade department of Henan Province Planning Economy Commission and finance department of Henan Province Planning Economy Commission from July 1984 to September 1987.

Mr. JI graduated from School of Communist Party of China Henan Province Committee (中共河南省委黨校) (Henan, China) in July 1994, majoring in economics (evening college). He obtained a completion certificate of a program of post-graduate course for further studies in finance (金融學專業研究生課程進修班) from Business School of Wuhan University (Hubei, China) in June 2004 and a master's degree in business administration from the Asia International Open University (Macau) (Macau, China) in November 2010. He has been a financial planner accredited by Beijing Finance Training Centre (北京金融培訓中心) since October 2007.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Mr. YU Zhanglin, aged 50, was appointed as a non-executive Director of the Bank in June 2016.

Mr. YU has served as the vice president of CCCC Financial Limited (中國城市國際金融控股集團有限公司) since January 2016. Prior to that, he had served in Henan Province Metallurgy Plan and Design Institute (河南省冶金規劃設計院) from September 1988 to March 1992 and Yellow River Conservancy Commission of the Ministry of Water Resources (水利部黃河水利委員會) from March 1992 to May 2004 and served as the general manager of Shenzhen Southern Great Wall Investment Holdings Co., Ltd. (深圳南方長城投資控股有限公司) from May 2004 to January 2016.

Mr. YU graduated from Zhengzhou Institute of Technology (鄭州工學院) (Henan, China) in July 1988, majoring in water resources and hydropower construction and obtained a bachelor's degree in engineering.

Mr. WANG Shihao, aged 66, was appointed as an independent non-executive Director of the Bank in February 2012. He was appointed as the director-general of Funds Clearing Centre for City Commercial Banks (城市商業銀行資金清算中心) in September 2002 and had served as the legal representative of Funds Clearing Centre for City Commercial Banks from July 2002 to August 2013. He has served as the independent non-executive director of Huishang Bank Corporation Limited (listed on Hong Kong Stock Exchange, stock code: 3698) from October 2011 to December 2015. Prior to that, he had served as the director, vice president of Shanghai City Cooperation Commercial Bank (上海城市合作商業銀行) (currently known as Bank of Shanghai) from December 1995 to May 2010, the director of Shanghai City Credit Cooperatives (上海市城市信用合作社聯社) from February 1991 to December 1995. In addition, he had been appointed as the special expert for decision consulting of the Shanghai People's Government (上海市人民政府決策諮詢特聘專家) from March 2008 to February 2010 and from December 2010 to November 2012. He had served as the part-time professor of Shanghai National Accounting Institute since July 2010, the part-time professor of Overseas Education College of Shanghai Jiao Tong University since January 2011, the visiting professor (2012–2014) of School of Economics of Fudan University from June 2012 to December 2014 and the part-time professor of the College of Business of Shanghai University of Finance and Economics since May 2013.

Mr. WANG graduated from Fudan University (Shanghai, China) in July 1984, majoring in financial management. He completed a joint program of executive master's of business administration organised by Shanghai National Accounting Institute (Shanghai, China) and Arizona State University (U.S.) in June 2005, and obtained a master's degree in business administration from Arizona State University (U.S.). He has been a senior economist accredited by PBoC since July 1993.

Mr. LI Huaizhen, aged 59, was appointed as an independent non-executive Director of the Bank in June 2015. He has served as an executive Director and president of China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) since July 2014, and the director of CM International Capital Limited (中民國際資本有限公司) since November 2014. He has been serving as a director of CM Investment International Holdings Limited (中民投國際控股有限公司) since April 2015. Prior to that, he had served as the vice chairman of the board of supervisions of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司) from April 2012 to June 2014. He had successively served in CBRC as a member of preparatory team of Shandong office, the vice director of Shandong office, the director of Hubei office, and the director of financial accounting department from July 2003 to 2012, the vice president of PBoC Jinan office and the deputy director of SAFE Jinan office from November 1998 to September 2003, the vice president of PBoC Henan office and the deputy director of SAFE Henan office from January 1997 to November 1998. He had successively served in PBoC as the staff member of Zhoukou region branch planning section, the deputy director and the director of Zhoukou region branch office, the vice president of Luohe branch, and the president of Zhengzhou branch from September 1983 to January 1997, and the staff member of PBoC Zhoukou region branch statistics section from March 1980 to September 1981.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Mr. LI graduated from Henan Banking School (河南銀行學校) (Henan, China) in March 1980 and graduated from Zhengzhou University (Henan, China) in September 1983, majoring in finance and obtained a master's degree in economics from Dongbei University of Finance and Economics (Liaoning, China) in December 1997. He has been a senior economist accredited by PBoC since February 1996.

Mr. XIE Taifeng, aged 58, was appointed as an independent non-executive Director of the Bank in June 2015. He has served as the independent director of Woori Bank (China) Limited (友利銀行(中國)有限公司) since September 2013 and the professor of School of Finance of Capital University of Economics and Business since July 2005. Prior to that, he had served as the independent director of China Haohua Chemical Group Co., Ltd. (中國昊華化工集團股份有限公司) from March 2013 to June 2015, the deputy dean, and the dean and PhD supervisor of School of Finance of Capital University of Economics and Business from January 2006 to March 2015. He had served as the professor of Business Administration Branch School of Beijing Machinery Industry Institute (北京機械工業學院) from July 2000 to July 2005, and the teaching assistant of Economics Department, the lecturer of Economics Department, the associate professor of Business School, the dean of Finance Department, the deputy dean of Business School, the professor and the deputy dean of Business School of Zhengzhou University from January 1982 to July 2000.

Mr. XIE graduated from Zhengzhou University (Henan, China) in December 1981, majoring in politics and economics, and obtained a bachelor's degree in economics. He graduated from the Southwestern University of Finance and Economics (Sichuan, China) in July 1986, majoring in monetary banking, and obtained a master's degree in economics in January 1989. He obtained a doctoral degree in economics from Southwestern University of Finance and Economics (Sichuan, China) in January 2000. He has been a professor accredited by the People's Government of Henan Province since May 1996.

Mr. WU Ge, aged 49, was appointed as an independent non-executive Director of the Bank in June 2015. He has served as the director and the legal representative of Beijing Zhongwen Law Firm (北京市中聞律師事務所) since November 2013. In addition, he has served as a part-time researcher of human rights education and research centre of the Southwestern University of Politics and Law, being the national base of human rights education and training, since April 2015. He has been a member of the 11th Henan Provincial Committee of Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆河南省委員會) since January 2013, the director of the third and the fourth sessions of Chinese Overseas Friendship Association (中華海外聯繫會) since September 2008. He has served as the tutor of juris master of Central University of Finance and Economics since December 2005, the part-time researcher of the Institute of Criminal Law Science of Beijing Normal University since August 2006, and the part-time professor of Law School of China University of Political Science and Law from May 2007 to May 2010. He was awarded the outstanding joint tutor of juris master of Law School of Tsinghua University (清華大學法學院優秀法律碩士聯合導師) in March 2007.

Mr. WU graduated from Renmin University of China (Beijing, China) in January 2000, majoring in juris master, and obtained a master's degree in law. He obtained a completion certificate of post-graduate course in finance from School of Economics of Peking University (Beijing, China) in December 2002.

Ms. CHAN Mei Bo Mabel, aged 45, was appointed as an independent non-executive Director of the Bank in June 2015. She established Mabel Chan & Co. (陳美寶會計師事務所) in February 1999 and became the deputy managing partner of Grant Thornton Limited in 2016. She had served as the independent non-executive director of Code Agriculture (Holdings) Limited (formerly known as China Chief Cable TV Group Limited, listed on Hong Kong Stock Exchange, stock code: 08153) from October 2009 to April 2012, the independent non-executive Director of Hong Kong Education (Int'l) Investments Ltd. (formerly known as Modern Education Group Limited, listed on Hong Kong Stock Exchange, stock code: 01082) from July 2011 to September 2012, the independent non-executive Director of Kingmaker Footwear Holdings Ltd. (listed on Hong Kong Stock Exchange, stock code: 01170) since August 2011, the independent non-executive Director

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

of China Weaving Materials Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 03778) from December 2011 to December 2014, and the independent non-executive Director of South China Assets Holdings Limited (formerly known as South China Land Limited, listed on Hong Kong Stock Exchange, stock code: 08155) since May 2013. She has served as the council member of Association of Women Accountants HK Ltd. (香港女會計師協會) since January 2006, and served as the president in 2010. She had served as the vice president of the Society of Chinese Accountants and Auditors (香港華人會計師公會) from December 2008 to December 2009 and president of the aforesaid society from December 2009 to December 2010, member of Barristers Disciplinary Tribunal Panel of Hong Kong (香港大律師紀律審裁團) since May 2010, member of the Financial Reporting Review Panel of Financial Services and the Treasury Bureau of Hong Kong (香港財經事務及庫務局財務匯報檢討委員會) from July 2010 to July 2015, member of the Vetting Committee of CreateSmart Initiative appointed by the Secretary for Commerce and Economic Development of Hong Kong (香港商務及經濟發展局局長委任的創意智優計劃審核委員會) from August 2011 to July 2013 and since August 2015, member of Council of Hong Kong Baptist University since January 2013, member of the Appeal Panel (Housing) of Hong Kong (香港上訴委員會(房屋)) since April 2014, and president of Hong Kong Society of Accountants (香港會計師公會) since December 2016.

Ms. CHAN obtained a master's degree in business administration from Hong Kong University of Science and Technology (Hong Kong) in November 2000. She has been a member of the Chartered Association of Certified Accountants (英國特許公認會計師公會) since November 1996, a certified public accountant accredited by Hong Kong Institute of Certified Public Accountants (香港會計師公會) and a member of Hong Kong Society of Accountants (香港會計師公會) since January 1997, a member of the Society of Chinese Accountants & Auditors (香港華人會計師公會) since December 2002, and a member of the Institute of Chartered Accountants in England and Wales (英格蘭和韋爾斯特許會計師公會) since February 2008.

Supervisors

Ms. ZHAO Lijuan, aged 54, was appointed as a shareholder Supervisor and chairlady of the Board of Supervisors of the Bank in June 2016, and has served as the chairlady of the labor union of the Bank since November 2007. She joined the Bank in August 1996 and had successively served as the vice president and the president of Wulibao sub-branch, the president of Jinhai Avenue sub-branch and the vice president of the Bank from August 1996 to June 2016. Prior to joining the Bank, she successively served as the accountant and the accounting chief of Zhengzhou Wulibao City Credit Cooperatives (鄭州五裡堡城市信用社) from December 1984 to August 1996.

Ms. ZHAO graduated from Air Force Logistics Management College of the People's Liberation Army of the PRC (中國人民解放軍空軍後勤管理學院) (Jiangsu, China) in June 2004, majoring in financial management. She obtained a completion certificate of advanced course program in finance major of business administration master (工商管理碩士課程金融方向高級研修班) from the School of Finance of Renmin University of China (Beijing, China) in March 2008. She has been a senior political consultant accredited by Senior Professional Evaluation Committee of Henan Province Enterprises' Ideological and Political Personnel (河南省企業思想政治工作人員高級專業職務任職資格評審委員會) since January 2009, and an economist accredited by Ministry of Personnel of the PRC since November 2001.

Mr. ZHU Zhihui, aged 47, was appointed as a shareholder Supervisor of the Bank in June 2015. He had served as deputy general manager of Henan Province Light Industry Economic Technology Import and Export Co., Ltd. (河南省輕工經濟技術進出口公司) from June 1987 to March 1993, the general manager of Zhengzhou Huida Real Estate Development Co., Ltd. (鄭州暉達房地產開發有限公司) from March 1993 to November 2011. He has served as the chairman of Zhengzhou Huida Industry (Group) Co., Ltd. (鄭州暉達實業(集團)有限公司) from May 1998 to December 2014, the chairman of Henan Guoyuan Trade Co., Ltd. (河南國原貿易有限公司) since December 2005, and the chairman of the Zhengzhou Huida Real Estate Development Co., Ltd. (鄭州暉達房地產開發有限公司) since November 2011.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Mr. ZHU graduated from School of Communist Party of China Henan Province Committee (中共河南省委黨校) (Henan, China) in December 1996, majoring in economic management (correspondence education), and obtained a completion certificate in business strategy advanced program (經營方略高級研修班) from Peking University (Beijing, China) in April 2010.

Ms. MENG Jun, aged 45, was appointed as a Shareholder Supervisor of the Bank in February 2012. She had successively served as the assistant to president, the financial director and the deputy general manager of Henan Zhenghong Property Co., Ltd. from June 1996 to June 2013, and has served as the vice president of Henan Zhenghong Property Co., Ltd. (河南正弘置業有限公司) since July 2013.

Ms. MENG graduated from Henan Institute of Finance of Economics (河南財經學院) (Henan, China) in December 1992, majoring in accounting. She graduated from Central South University (Hunan, China) in January 2007, majoring in accounting (internet education) and also obtained a master's degree in business administration from China Europe International Business School (CEIBS) (Shanghai, China) in August 2016. She has been a senior international financial manager accredited by International Financial Management Association (國際財務管理協會) since January 2010, an intermediate accountant accredited by Ministry of Finance of the PRC since May 2004 and certified financial planner accredited by the Institute of Chinese Certified Financial Planners (中國註冊理財規劃師協會) from July 2012 to July 2015.

Mr. TANG Yunwei, aged 72, was appointed as an external Supervisor of the Bank in February 2012. He has been a member of Accounting Standards Committee of Ministry of Finance of the PRC since October 1998 and a member of Auditing Standards Committee of Chinese Institute of Certified Public Accountants (中國註冊會計師協會) from January 2007 to January 2009. He had served as the independent non-executive director of PingAn Insurance (Group) Company of China Ltd. (listed on Hong Kong Stock Exchange, stock code: 02318; listed on Shanghai Stock Exchange, stock code: 601318) from June 2009 to June 2015, the independent director of Tung Kong Security Printing Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 002117) from August 2009 to September 2012, the independent director of Jiangsu Zhongnan Construction Group Holding Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 000961) from August 2010 to March 2014, the independent director of Shanghai Bairun Flavour & Fragrance Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 002568) from November 2011 to November 2014, and the independent non-executive director of China National Building Material Co. Ltd. (listed on Hong Kong Stock Exchange, stock code: 03323) since October 2014. Prior to that, he had served as the legal representative of Shanghai Association of Accounting (上海市會計學會) from August 2002 to July 2012, and had served as a partner in Ernst & Young from January 2002 to December 2006. He had successively served as the associate professor and professor of Shanghai University of Finance and Economics from 1984 to March 1991 and the acting vice principal of Shanghai University of Finance and Economics from March 1991 to September 1993 and the principal of Shanghai University of Finance and Economics from October 1993 to January 1999. He was elected as the honorary member of Association of Chartered Certified Accountants (英國公認會計師公會) in July 2001, and was awarded the title of "returned overseas student with outstanding contribution to socialist modernisation construction" (在社會主義現代化建設中突出貢獻的回國留學人員) by the State Education Commission and Ministry of Personnel in January 1991.

Mr. TANG graduated from Shanghai College of Finance and Economics (Shanghai, China) in July 1968, majoring in accounting. He graduated from the Shanghai University of Finance and Economics (Shanghai, China) in November 1983, majoring in accounting, and obtained a master's degree in economics and obtained a doctoral degree in economics from the Shanghai University of Finance and Economics (Shanghai, China) in January 1988.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Mr. LIU Yuhui, aged 46, was appointed as an external Supervisor of the Bank in June 2011. He has served as the independent director of Bank of Hangzhou Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600926) since March 2010 and the researcher of Finance Institute of Chinese Academy of Social Sciences since December 2011. He also has served as the independent director of Bank of Jiangsu Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600919) since April 2014, the independent director of Central China Land Media Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 000719) since January 2015, the independent director of Shenzhen Keybridge Communications Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 002316) since June 2015, the chief economist of Tianfeng Securities Co., Ltd. since September 2016. Prior to that, he has successively served as the postdoctoral researcher of the Chinese Academy of Social Sciences, the senior visiting scholar of the Hong Kong Monetary Authority, the director of China Center for Economic Research, the dean of Financial Critical Laboratory, the professor and PhD supervisor of Graduate School of Chinese Academy of Social Sciences and Nankai University and the chief economist of GF Securities Co., Ltd. since August 2003.

Mr. LIU obtained a doctoral degree in economics from Graduate School of Chinese Academy of Social Sciences (Beijing, China) in June 2003.

Mr. XU Changsheng, aged 53, was appointed as an external Supervisor of the Bank in June 2016. He has served as a teacher of the School of Economics of Huazhong University of Science and Technology (華中科技大學經濟學院) since July 1987, the deputy dean, professor and dean of the School of Economics of Huazhong University of Science and Technology from 1994 to 1999, since September 1997 and from January 2000 to January 2015, respectively. He has served as the independent director of Guodian Changyuan Electric Power Co., Ltd. (國電長源電力股份有限公司) (listed on Shenzhen Stock Exchange, stock code: 000966) since May 2013, the independent non-executive Director of Shanghai Zhengda Property Limited (上海証大房地產有限公司) (listed on Hong Kong Stock Exchange, stock code: 0755) since June 2015, the independent director of Kaidi Ecological and Environmental Technology Co., Ltd. (凱迪生態環境科技股份有限公司) (listed on Shenzhen Stock Exchange, stock code: 000939) since September 2015 and the independent director of Zhongyuan Trust Co., Ltd. (中原信託有限公司) since December 2015.

Mr. XU graduated from Nanjing University (Jiangsu, China) in July 1984, majoring in political economics and obtained a bachelor's degree in economics. He graduated from Wuhan University (Hubei, China) in July 1987, majoring in western economics and obtained a master's degree in economics and also obtained a doctoral degree in economics from Wuhan University (Hubei, China) in July 1992. He acted as a visiting scholar at Harvard University in United States from January to April 2002.

Ms. DUAN Ping, aged 50, was appointed as an employee Supervisor of the Bank in February 2012, and appointed as the director of discipline inspection committee of the Bank in May 2015. She joined the Bank in August 1996 and had successively served as the staff member of Wulibao sub-branch, the staff member of party affairs office, the staff member of planning department, the staff member of planning and funds department, the staff member of human resources department, the general manager of party affairs department, the vice president of Luoyang branch from August 1996 to May 2015. Prior to that, she was a staff member of Zhengzhou Wulibao City Credit Cooperatives (鄭州市五裡堡城市信用社) from April 1995 to August 1996.

Ms. DUAN graduated from Henan Radio & Television University (河南廣播電視大學) (Henan, China) in September 1987, majoring in industrial statistics. She graduated from The Open University of China (中央廣播電視大學) (Beijing, China) in November 2003, majoring in finance. She has been a senior political consultant accredited by Senior Professional Evaluation Committee of Henan Province Enterprises' Ideological and Political Personnel (河南省企業思想政治工作人員高級專業職務任職資格評審委員會) since February 2007.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Ms. ZHANG Chungge, aged 48, was appointed as an employee Supervisor of the Bank in February 2012 and appointed as the president of Zhenghua Road sub-branch of the Bank in February 2014. She joined the Bank in September 2000 and had successively served as the manager of marketing department, and the president of Weiye Road sub-branch of the Bank from September 2000 to February 2014. Prior to that, she had successively served as the deputy director responsible for credit, vice chairman and officer of Wugang City Urban Credit Cooperatives (舞鋼市城市信用社) from March 1985 to September 2000.

Ms. ZHANG graduated from Correspondence Education College of Central School of Communist Party of China (中共中央黨校函授學院) (Beijing, China) in December 2000, majoring in economic management (correspondence education), and obtained a completion certificate in (Zhengzhou Bank) MBA finance advanced program ((鄭州銀行)MBA金融方向高級研修班) from Renmin University of China (Beijing, China) in April 2010. She has been an economist accredited by Henan Province Science and Technology Commission (河南省科委) since November 1999.

Ms. CUI Huarui, aged 49, was appointed as an employee Supervisor of the Bank in May 2015 and appointed as the director of head office business department of the Bank in July 2014. She joined the Bank in February 2002 and had successively served as the vice president of Jingguang Road sub-branch, the president of Xinghua Street sub-branch, and the president of West District sub-branch from February 2002 to July 2014. Prior to that, she had served as the staff member and the manager of the operation department of BridgeTrust Investment Company (百瑞信託投資公司) from February 1993 to January 2002, and the staff member of Zhengzhou Fangzhi Road grain office from September 1988 to January 1993.

Ms. CUI graduated from Correspondence Education College of Central School of Communist Party of China (中共中央黨校函授學院) (Beijing, China) in December 1996, majoring in foreign economics (correspondence education). She obtained a master's degree in business administration from Macau University of Science and Technology (Macau, China) in July 2003, and obtained a completion certificate of banking/finance training course from University of Canberra (Australia) professional management program training centre (堪培拉大學(澳大利亞)專業管理項目培訓中心銀行/金融培訓課程結業證書) in April 2008. She has been an accountant accredited by Ministry of Finance of the PRC since May 1998, and a senior accountant accredited by the People's Government of Henan Province since April 2010.

Senior Management

For Mr. SHEN Xueqing's biography, please see "Executive Directors".

Mr. XIA Hua, aged 49, has served as the vice president of the Bank since December 2011. He is primarily responsible for the operations of the credit approval department, the risk management department, the compliance department and the asset security department. Mr. XIA has nearly 27 years of experience in the banking industry. He joined the Bank in December 2011. Prior to joining the Bank, he had successively served in CBRC Henan Office as a principal staff member and the deputy chief of state-owned banking regulatory No. 1 department, the deputy chief and the regulatory researcher of city commercial banks regulatory department from September 2003 to December 2011. He had successively served as the vice president of the PBoC sub-branch in Yichuan County, the deputy principal staff member and a principal staff member of rural cooperation finance management department of Henan office, a principal staff member of the cooperation department of Zhengzhou regulatory office of Jinan office, a principal staff member of the regulatory department of Agricultural Bank of China from August 1996 to September 2003, and a staff member of the foreign exchange department of PBoC Luoyang Office from July 1990 to July 1996.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Mr. XIA graduated from the Beijing Agricultural Engineering University (北京農業工程大學) (Beijing, China) in July 1990, majoring in applied electronic technology, and obtained a bachelor's degree in engineering. He has been an economist accredited by the Ministry of Personnel of the PRC since June 1995.

Mr. BAI Xiaofeng, aged 49, has served as a vice president of the Bank since May 2008. He is primarily responsible for the operations of the financial markets department and the interbank department. Mr. BAI has nearly 26 years of experience in the banking industry. He joined the Bank in May 2008. Prior to joining the Bank, he had served successively in Zhengzhou branch of Guangdong Development Bank, Co., Ltd. (廣東發展銀行股份有限公司) (currently known as China Guangfa Bank Co., Ltd., 廣發銀行股份有限公司) as the manager of branch office, the manager of credit management department, the assistant to president of Wenhua Road sub-branch, the vice president and the president of Jinshui Road sub-branch from September 2003 to March 2008. He had served successively in PBoC as the vice president of Shangjiequ sub-branch of Zhengzhou office, the vice president of Xinzheng sub-branch, the principal staff member of policy banking regulatory department of Zhengzhou financial regulatory office of Jinan office from March 1998 to September 2003. He served as the deputy head of preparatory team of Sanmenxia City Credit Cooperatives (三門峽市城市信用聯社) from November 1997 to March 1998, the chief of the planning section of Shan County sub-branch of PBoC, the deputy chief of administrative and education section and the deputy chief of financial management section of Sanmenxia office in Henan Province from June 1991 to November 1997.

Mr. BAI graduated from Zhengzhou University (Henan, China) in June 1989, majoring in economics, and obtained a bachelor's degree in economics. He obtained a master's degree in business administration from Hunan University (Hunan, China) in December 2000. He has been an economist accredited by the Ministry of Personnel of the PRC since April 1994.

Mr. GUO Zhibin, aged 48, has served as the vice president of the Bank since December 2015. He is primarily responsible for the operations of the corporate business department and the trade finance department of the Bank. Mr. GUO has over 18 years of experience in the banking industry. He had served as an assistant to president of the Bank from December 2010 to December 2015. Prior to that, he had served as the president of Huanghe Road sub-branch of Zhengzhou branch in Industrial Bank Co., Ltd. (興業銀行股份有限公司) from March 2006 to December 2010. In addition, he had served in Everbright Bank Co., Ltd. (光大銀行股份有限公司) as the assistant to president and the vice president of Hongzhuan Road sub-branch of Zhengzhou branch, the deputy general manager of corporate business No. 2 department of Zhengzhou branch, and the general manager of asset security department of Zhengzhou branch from June 1999 to March 2006. He had served as the manager and the deputy general manager of the general office of Henan Yutai Mall Co., Ltd. (河南豫泰商廈有限公司) from October 1997 to May 1999, and the deputy director of general office of Zhengzheng Sanjie (證政三街) sub-branch of the Bank and Henan Province Labor City Credit Cooperatives (河南省勞動城市信用社) from August 1996 to October 1997 and from January 1995 to August 1996, respectively.

Mr. GUO graduated from Zhengzhou University (Henan, China) in June 1995, majoring in finance. He graduated from Henan University (Henan, China) with the completion of the national economics post-graduate course program (國民經濟學專業研究生課程進修班) in July 1999, and obtained a master's degree in business administration from the Asia International Open University (Macau) (Macau, China) in August 2004. He has been an economist accredited by the Ministry of Personnel of the PRC since November 1997.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Mr. SUN Haigang, aged 39, has served as an assistant to president of the Bank since October 2009. He was primarily responsible for the operations of the operations management department, the science and technology development department and the administration and management department. Mr. SUN has nearly 8 years of experience in the banking industry. He joined the Bank in October 2009 and served as an assistant to president of the Bank and the general manager of the strategic development department of the Board from October 2009 to October 2013, and an assistant to president of the Bank and the president of Luoyang branch from October 2013 to April 2016. Prior to joining the Bank, he worked in Baosteel Holding Co., Ltd. (寶山鋼鐵股份有限公司) from July 2007 to September 2009.

Mr. SUN graduated from the Henan University (Henan, China) in June 2000, majoring in marketing (advertising), and obtained a bachelor of arts degree. He graduated from the Henan University (Henan, China) in July 2004, majoring in political economics, and obtained a master's degree in economics. He graduated from Shanghai University of Finance and Economics (Shanghai, China) in June 2007, majoring in industrial economics, and obtained a doctoral degree in economics. He has been a senior economist accredited by the Human Resources and Social Security Ministry of the PRC since December 2014.

Mr. ZHANG Wenjian, aged 51, has served as an assistant to president of the Bank since May 2011. He is primarily responsible for the operations of the financial department of small business, the electronic banking department, the retail banking department, the credit card department, the internet finance department and asset management department. Mr. ZHANG has over 32 years of experience in the banking industry. He joined the Bank in November 1997 and had successively served as the staff member of Zhengliu Street sub-branch, the deputy general manager of financial accounting department, the general manager of accounting and settlement department, the general manager of corporate business department, a member of preparatory team of Nanyang branch, and the president of Nanyang branch from November 1997 to May 2011. Prior to that, he had served as the deputy chief of accounting section and the director of transaction centre of Jinshui sub-branch of Industrial & Commercial Bank of China Limited (中國工商銀行股份有限公司) from February 1985 to November 1997.

Mr. ZHANG graduated from the Zhengzhou Workers' University (鄭州市職工大學) (Henan, China) in June 1989, majoring in applied computer science, and graduated from Nanjing Institute of Political Science (南京政治學院) (Jiangsu, China) in June 2005, majoring in economic management and graduated from the School of Economic Management of Nankai University (Tianjin, China), majoring in economic management in June 2016. He has been an economist accredited by the Ministry of Personnel of the PRC since June 1995.

Ms. MAO Yuezhen, aged 53, has served as the chief accountant of the Bank since September 2011. She is primarily responsible for the operations of the finance and accounting department. Ms. MAO has nearly 24 years of experience in finance and accounting. She joined the Bank in August 1996 and had successively served as the chief of accounting section of Hongqi Road sub-branch, the vice president of Hongqi Road sub-branch, the deputy director of auditing department, the general manager of audit and supervision department, the director of assessment office, the general manager of planning and asset department, and the general manager of planning and finance department of the Bank from August 1996 to October 2011. Prior to joining the Bank, she had served as the manager of accounting department of Henan Jinyu Experimental Bank (河南金育實驗銀行) from April 1993 to July 1996, and a lecturer of Henan College for Finance and Management Officials (河南金融管理幹部學院) from July 1987 to March 1993.

Ms. MAO graduated from the Henan College for Finance and Management Officials (河南金融管理幹部學院) (Henan, China) in July 1995, majoring in finance. She has been a senior accountant accredited by the Ministry of Finance of the PRC since October 2015.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

Mr. FU Chunqiao, aged 43, has served as the director of the Office of the Board of Directors of the Bank since January 2011 and the secretary to the Board of Directors since June 2013. He is primarily responsible for the operations of the Office of the Board of Directors. Mr. FU has over 20 years of experience in the banking industry. He joined the Bank in August 1996, and had served successively as the deputy manager and the deputy general manager of planning and asset department, and the deputy general manager and the general manager of asset operation department from March 2000 to January 2011.

Mr. FU graduated from Henan Institute of Finance and Economics (河南財經學院) (Henan, China) in June 1995, majoring in money and banking. He obtained a master's degree in law from Zhengzhou University (Henan, China) in June 2008. He has been an economist accredited by the Ministry of Personnel of the PRC since November 1999.

Mr. JIANG Tao, aged 44, has served as the chief information officer of the Bank since December 2015, and the general manager of the science and technology development department of the Bank since April 2005. Mr. JIANG has nearly 23 years of experience in the banking industry. He joined the Bank in August 1996, and had served successively as the assistant engineer of the science and technology department, the chief of the ex post-supervision and development department and the chief and deputy general manager of the science and technology development department from August 1996 to April 2005.

Mr. JIANG graduated from Zhengzhou University (Henan, China) in July 1994, majoring in computer science and its application. He obtained a master's degree in computer engineering from the PLA Information Engineering University (Henan, China) from September 2002 to July 2005.

Joint Company Secretaries

Mr. FU Chunqiao, is one of the joint company secretaries of the Bank being appointed on September 29, 2015. Please see “– Senior Management” for his biography.

Ms. LEUNG Wing Han Sharon, is one of the joint company secretaries of the Bank being appointed on November 6, 2015. Ms. LEUNG is the vice president of SW Corporate Services Group Limited. She has over 11 years of experience in finance, accounting and company secretarial matters. Ms. LEUNG holds degrees of bachelor of business administration in accounting, bachelor of laws, and master of laws in international corporate and financial law. Ms. LEUNG is a fellow member of the Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries and Administrators in UK, and the Association of Chartered Certified Accountants in UK. She is also a member of the Hong Kong Institute of Certified Public Accountants.

4 ANNUAL REMUNERATION FOR DIRECTORS AND SUPERVISORS

The remuneration details of the Bank's Directors, Supervisors and the top five highest-paid employees are set out in Notes 9 and 10 of the financial statements of the Bank for the year.

The remuneration for the Bank's Directors and Supervisors has been determined in accordance with applicable laws, regulations and regulatory requirements as well as the Bank's relevant remuneration policy.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

5 ANNUAL REMUNERATION FOR SENIOR MANAGEMENT

The table below sets out the remuneration for the senior management (excluding Directors) by salary range for the year ended December 31, 2016:

Salary range	Number of employees
0–RMB1,000,000	0
RMB1,000,001–RMB2,000,000	1
RMB2,000,001–RMB3,000,000	8

6 CONFIRMATION OF INDEPENDENCE FOR INDEPENDENT NON-EXECUTIVE DIRECTORS

The Bank had already received letters of confirmation on independence as required by the Listing Rules submitted by each Independent Non-Executive Director and believes that all Independent Non-Executive Directors are independent and in compliance with relevant guidelines provided by Rule 3.13 of the Listing Rules.

The Bank's Independent Non-Executive Directors neither have any business or financial interests in the Bank nor hold any management position in the Bank. They are all elected for a term of three years. They may continue to serve for three years after the expiration of the term.

7 H-SHARE APPRECIATION RIGHTS' INCENTIVE SCHEME DURING THE REPORTING PERIOD

The Bank did not adopt any H-share appreciation rights' incentive scheme during the Reporting Period.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

8 STAFF

8.1 Composition

By department/function

	Number of employees	Percentage
Finance and accounting	1,360	36%
Corporate and retail	231	6%
Risk management, internal audit and compliance	149	4%
Retail banking	435	12%
Corporate banking	439	12%
I.T.	83	2%
Business management and support	1,020	27%
Capital business	56	1%
Total	3,773	100%

By age

	Number of employees	Percentage
30 or below	2,195	58%
31–40	767	20%
41–50	728	19%
Over 50	83	2%
Total	3,773	100%

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

By education

	Number of employees	Percentage
Master or above	467	12%
Bachelor	2,693	71%
Non-degree tertiary	522	14%
Others	91	2%
Total	3,773	100%

8.2 Staff Training Plan

The Bank formulated the annual training plan based on the development strategies and the educational training objectives, and launched various training sessions to guarantee for the training quality, and enhance the professionalism of employees and provide support to their career progress. During the Reporting Period, the Bank consolidated the general sub-branch's three-tier training resources and launched intensive training projects for new businesses, new systems and new products, and also provided training to improve senior-/mid-level management's capability, specialist training, junior staff training and new staff training. The Bank earnestly grasped the work for constructing the mobile training platform and building up the internal instructor team with a total of 132 intensive training sessions for 15,875 employee participants for various business lines for the year.

8.3 Remuneration Policy for Staff

The Bank has established a performance-based remuneration system and the salary of employees is based on their positions and performance appraisal. The Bank provides employees with the social insurance contribution, housing provident fund and other employees benefit packages in accordance with the laws, rules and regulations of the PRC.

CHAPTER VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, STAFF AND INSTITUTIONS (Continued)

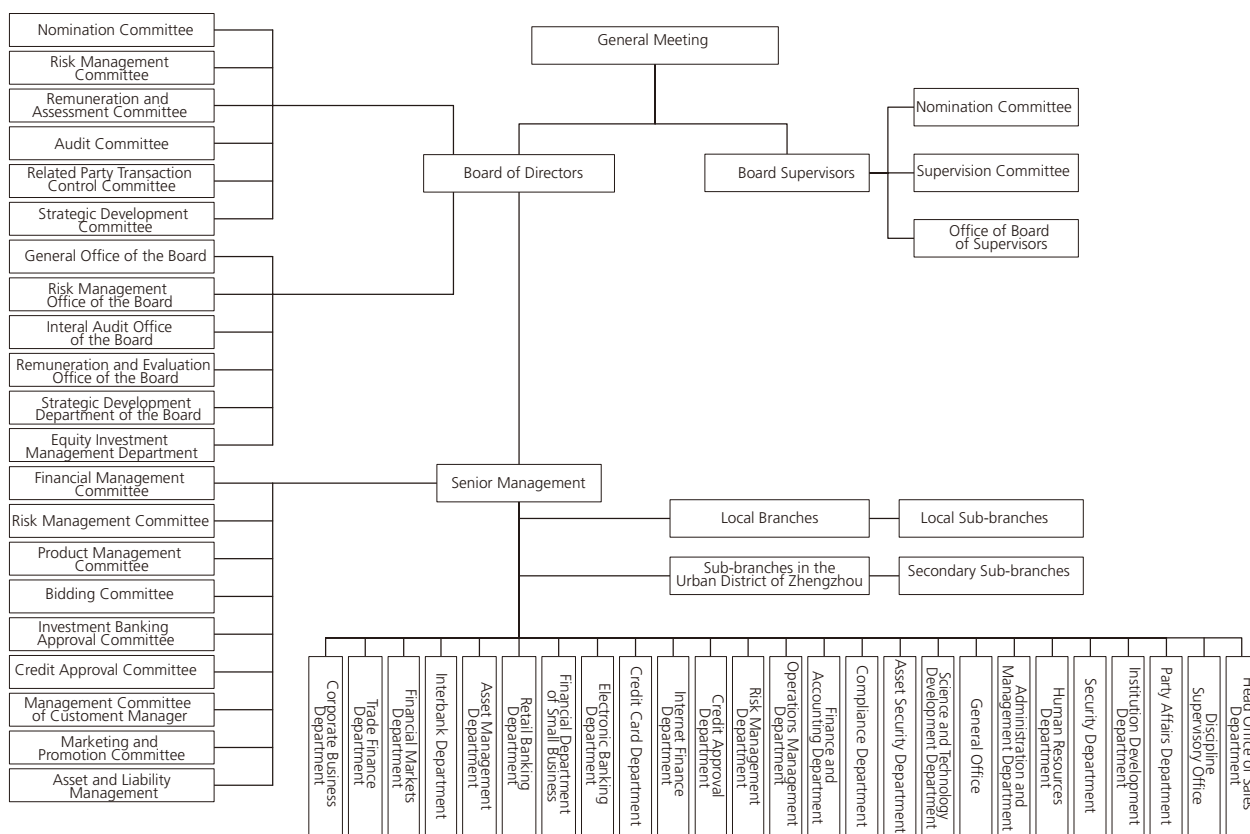
9 BASIC INFORMATION OF INSTITUTIONS UNDER THE BANK

The following table sets out the branches and sub-branches of the Bank as of December 31, 2016:

Region	Name of branch	Business address (China)	Notes
Zhengzhou, Henan	Headquarters	22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan Province.	In charge of 111 branch institutions in Zhengzhou district and 31 institutions in provincial prefectures and cities for conducting external business
Nanyang, Henan	Nanyang	The junction of Zhongjing Road and Fanli Road, Wancheng District, Nanyang City, Henan Province	In charge of 8 institutions for conducting external business
Xinxiang, Henan	Xinxiang	No. 278, Xiangyang Road, Xinxiang City, Henan Province	In charge of 7 institutions for conducting external business
Luoyang, Henan	Luoyang	Longan Building (隆安大廈), the junction of Guanlin Road and Houzaimen Street, Luolong District, Luoyang City, Henan Province	In charge of 4 institutions for conducting external business
Anyang, Henan	Anyang	Yiwu International Business & Trade Mansion, the junction of Chouzhou Road and Delong Street, Andong New District, Anyang City, Henan Province	In charge of 4 institution for conducting external business
Shangqiu, Henan	Shangqiu	Floor A2B, Siji Harbour, Wenhua Road North and Zhongzhou Road East, Liangyuan District, Shangqiu City, Henan Province	In charge of 3 institution for conducting external business
Xuchang, Henan	Xuchang	Juncheng International Building (亨通君成國際大廈), the junction of Liancheng Avenue and Weiwen Road, Weidu District, Xuchang City, Henan Province	In charge of 1 institution for conducting external business
Luohe, Henan	Luohe	Floor 1–5, Changjian International (昌建國際), the junction of Songshan East Branch Road and Mudanjiang Road, Yancheng District, Luohe District, Henan Province	In charge of 1 institution for conducting external business
Xinyang, Henan	Xinyang	Floor 1–2, Guolebai Gonggua (中樂百花公館), the junction of Xinqi Avenue and Xinba Street, Yangshan New District, Xinyang City, Henan Province	In charge of 1 institution for conducting external business
Puyang, Henan	Puyang	The northwest of junction of Renmin Road and Kaizhou Road, Longhua District, Puyang City, Henan Province	In charge of 1 institution for conducting external business
Pingdingshan, Henan	Pingdingshan	The southeast of junction of Kaiyuan Road and Qinggong Road, Zhanhe District, Pingdingshan City, Henan Province	In charge of 1 institution for conducting external business
Zhengzhou, Henan	Small Business Financial Service Centre	24/F, Bank of Zhengzhou Building, 22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan Province	

CHAPTER VIII CORPORATE GOVERNANCE REPORT

1 COMPANY STRUCTURE



- 1 According to the business development needs of the Bank, and with reference to the recommendations of the external advisory institution, the Bank decided to rename the department of trade finance to transaction banking division one, and newly set up a department of transaction banking division two, with an aim to upgrade the investment banking center within the interbank department to an investment banking department and separately manage the small business financial service centre as a branch level operating institution, as considered and approved at the board meeting of the Bank on January 19, 2017.

2 OVERVIEW OF CORPORATE GOVERNANCE

The Bank has been committed to high standards of corporate governance, in accordance with both the domestic and overseas corporate governance requirements, the Bank has established a sound corporate governance system in which the duties of the general meeting, the Board, the Board of Supervisors and senior management are clearly defined and operated separately, and with effective check and balance in place to ensure efficient coordination and scientific decision-making, thereby fully protecting the interests of Shareholders and enhancing corporate value.

The Bank has established a sound system of corporate governance, which will be revised in accordance with the Listing Rules and regulatory requirements from time to time. Relevant regulatory documents include (but not limited to): articles of association, the rules of procedures of general meetings, Board meetings and meetings of the Board of Supervisors, independent director administration criteria, working rules for Strategy Development Committee of the Board of Directors, working rules for Risk Management Committee of the Board of Directors, working rules for Connected Transaction Control Committee of the Board of Directors, working rules for Audit Committee of the Board of Directors, working rules for Nomination Committee of the Board of Directors, working rules for Remuneration and Review Committee of the Board of Directors, terms of reference of the President, connected transaction management criteria, information disclosure criteria, investor relations management criteria, etc.

During the Reporting Period, the Bank has further regulated the structure of Board of Directors and Supervisors, timely supplemented some Directors and Supervisors and enhanced the diversity of expertise of Directors and Supervisors; enhanced the professional guidance of the Special Committees under the Board of Directors, through increasing the frequency of meetings and enhancing the efficiency of performing duties; enriched the means of supervision of the Board of Supervisors, through periodic physical meetings, research and investigation and attending important meetings of the Company to continuously enhanced the supervision; increased the business investigation efforts by independent directors and external supervisors, to fully exert the expertise and the supervisory function of external experts. Through continuous improving the various systems and working mechanisms of corporate governance, the Bank continuously enhanced the standardisation and efficiency of the corporate governance.

During the Reporting Period, the Bank has strictly complied with the code provisions under the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the “**Code**”) as well as the Listing Rules in respect of inside information disclosure. Directors were not aware of any information indicating that the Bank did not comply with the code provisions set out in the Code during the Reporting Period.

The Bank will continue to review and strengthen its corporate governance in order to ensure consistent compliance of its corporate governance with the Code and meet the higher expectation of Shareholders and investors.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

BOARD DIVERSITY POLICY

The Bank believes that the diversity of the members of the Board of Directors could improve the performance of the Bank. It is critical to have a diversified Board of Directors in order for the Bank to achieve sustainable development, achieve its strategies and maintain good corporate governance.

In designing the Board's composition, Board diversity has been considered from a number of aspects, including (but not limited to) gender, regional and industry experience, skills, knowledge and educational background. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates of the Board will be based on a range of diversity perspectives, including but not limited to gender, regional and industry experience, skills, knowledge and educational background.

The Nomination Committee of the Bank will report annually, in the Corporate Governance Report of the Bank, on the Board's composition under diversified perspectives, and monitor the implementation of this Policy.

The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

3 GENERAL MEETINGS

In 2016, the Bank held 2 general meetings, with particulars as follows:

On June 17, 2016, the Bank held the 2015 Annual General Meeting in Zhengzhou, Henan Province. In the meeting, 15 resolutions regarding the 2015 Board of Directors' report, 2015 Board of Supervisors' report, 2016 financial budget, 2015 profit distribution plan, amendments to the Articles of Association, issuance of green financial bonds, the appointment of Directors and Supervisors and the adoption of Administrative Measures on Remuneration and Performance of Directors and Supervisors at Governance Level were considered and approved.

On September 27, 2016, at the 2016 first Extraordinary General Meeting of the Bank held in Zhengzhou, Henan, 14 proposals in relation to the listing of its A Shares and adjustment on the scale of tier-2 capital bonds issuance were considered and approved.

The convening, notice, holding and voting procedures of the above general meetings were in accordance with the relevant laws and regulations and the Articles of Association of the Bank.

4 BOARD OF DIRECTORS

The Board of Directors of the Bank shall hold at least 4 regular meetings a year, and convene extraordinary meetings when necessary. The meetings of the Board of Directors shall be held in the form of physical meetings or by way of telecommunication. The notices and materials of the meeting shall be sent to each Director at least ten days and three days before the relevant meeting is convened, respectively, in accordance with the related corporate governance requirements under the Listing Rules and the Articles of Association. Each Director may put forward proposals to be added to the agenda of the meeting of the Board of Directors. The detailed minutes of the meetings of the Board of Directors will be provided to all attending Directors for their review subsequent to the meetings, and then signed by all Directors for confirmation after proposing amendments. A good communication and report mechanism has been established among the Board of Directors, the Directors and senior management of the Bank. Senior management provides sufficient information for the Board and its special committees to make decisions. All Directors may seek independent professional opinions at the cost of the Bank. The President of the Bank regularly reports to the Board and is subject to its supervision. Relevant members of senior management are invited to participate in meetings of the Board and its special committees from time to time to provide explanations and answers to inquiries. At the meetings of the Board of Directors, all Directors can present their opinions freely, and decisions on important matters should only be made after a detailed discussion.

As the administrative body of the Board of Directors, the Board Office is responsible for the preparation of general meetings and the meetings of Board of Directors and special committees of the Board of Directors, information disclosure, investor relations management and other daily routines.

As our decision-making body, the Board of Directors is accountable to the general meeting and responsible for implementing the resolutions of the general meeting. The Board of Directors mainly exercises the following functions and powers:

- convening and reporting to general meetings;
- implementing the resolutions adopted at general meetings;
- deciding on the operation development strategy, operation plans and investment plans of the Bank, among which, operation development strategy includes relevant green credit strategy;
- formulating annual financial budgets, financial statements, profit distribution plans and loss recovery plans of the Bank;
- formulating proposals on the increase or decrease of registered capital, the issuance of bonds or other securities and the listing of the Bank;
- formulating proposals on major acquisitions by the Bank, acquisitions of the Shares of the Bank or merger, division, dissolution or change of the corporate form;
- deciding on external investment, acquisition and disposal of assets, pledge of assets, external guarantee, entrustment of wealth management and other matters of the Bank within the scope of authorization of the general meeting;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- examining and approving the related party transactions which require approval by the Board of Directors as stipulated by the law, administrative regulations, departmental rules, regulatory documents, regulations of securities regulatory authorities of the locality where the Bank's stocks are listed;
- deciding on the establishment of the Bank's internal management departments;
- appointing or removing the Bank's President and secretary to the Board of Directors; deciding to appoint or removing the Bank's senior management personnel including the Vice President, Assistant to President and finance chief of the Bank in accordance with the recommendations of the President, and determining their remunerations, rewards and punishment;
- formulating the basic management systems of the Bank, deciding on the policies on risk management, internal control and compliance policy of the Bank;
- formulating amendment proposals on amendments to the Articles of Association, the rules of procedures of general meetings and Board meetings;
- proposing at a general meeting the appointment, dismissal or discontinuance of appointment of accounting firms;
- supervising the work performance of the senior management, receiving the President's work report and inspect the President's work;
- managing the information disclosure of the Bank and taking ultimate responsibility for the completeness and accuracy of the Bank's accounting and financial reporting systems;
- considering any material capital expenditure, contract and commitment which exceed the expenditure limit for senior management set by the Board of Directors; and
- other functions and powers required by laws, administrative regulations, departmental rules or the Articles of Association, and other functions and powers authorised by the general meeting.

4.1 Members of the Board

As at the end of the Reporting Period, the Board of Directors of the Bank consisted of a total of 14 members, with 3 executive Directors: WANG Tianyu (王天宇) (Chairman), SHEN Xueqing (申學清) (President of the Bank) and FENG Tao (馮濤) (Vice Chairman); 6 non-executive Directors: FAN Yutao (樊玉濤), ZHANG Jingguo (張敬國), MA Jinwei (馬金偉), LIANG Songwei (梁嵩巍), JI Hongjun (姬宏俊) and YU Zhanglin (于章林); and 5 independent non-executive Directors: WANG Shihao (王世豪), LI Huaizhen (李懷珍), XIE Taifeng (謝太峰), WU Ge (吳革) and CHAN Mei Bo Mabel (陳美寶).

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

4.2 Changes in the Composition of the Board of Directors During the Reporting Period and After the Reporting Period

For information on the changes of Directors, please refer to the section headed “Directors, Supervisors, Senior Management, Staff and Institutions” in this annual report.

4.3 Chairman and President

The roles and work of the chairman of the Board of Directors and President of the Bank are taken up by different individuals. There is a clear division of responsibilities in compliance with the recommendations of the Listing Rules.

Mr. WANG Tianyu, as the Chairman of the Board of Directors, is mainly in charge of chairing general meetings, convening and chairing meetings of the Board of Directors; supervising and reviewing the implementation of resolutions of the Board of Directors; signing important documents of the Board of Directors and other documents required to be signed by the legal representative of the Bank; and proposing to the Board of Directors candidates of the special committees and secretary to the Board of the Bank.

Mr. SHEN Xueqing, as the President of the Bank, is mainly in charge of the management of daily operation and the implementation of relevant resolutions of the Board of Directors as well as work report to the Board of Directors.

4.4 Responsibilities of Directors

During the Reporting Period, all Directors of the Bank carefully, earnestly and diligently attended relevant meetings as specified and required by relevant laws and regulations and the Articles of Association of the Bank, where they exercised their rights regarding the operation of the Board of the Bank and resolutions of the Board, duly considered and voted on its resolutions and actively offered responsible suggestions and advice, which facilitated our sound and sustainable development and perfectly completed the tasks and objectives of the Board. While properly exercising their rights as Directors, they were performing their corresponding obligations to fully protect the rights of Shareholders.

The independent non-executive Directors of the Bank brought into full play their expertise in the Audit Committee, the Nomination Committee, the Remuneration and Assessment Committee, the Risk Management Committee and the Related Party Transactions Control Committee under Board, at which they strictly carried out the relevant work within their authority, effectively instructed the special committees and offered professional suggestions on the Bank’s strategic development, capital replenishment, significant investment, remuneration mechanism and branch institution establishment.

The Bank’s Board of Supervisors conducted evaluation of the performance of duties of the Directors during the Reporting Period, and reported the results of the evaluation to the general meeting.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

4.5 Particulars of Meetings of the Board of Directors and Directors' Attendance

In 2016, the Bank held 11 Board meetings, considering and approving 85 major proposals including the Annual Work Report of the Board of Directors, financial budget report, annual profit distribution plan, a series of resolutions on initial public offer of the A Shares, amendments to the Articles of Association and the rules of procedures of general meetings and pledge of equity interests by Shareholders.

Particulars of the Meetings

Number and session	Date of convening	Form of convening
The fifth meeting of the fifth session of the Board	March 26, 2016	On-site meeting
The sixth meeting of the fifth session of the Board	May 28, 2016	On-site meeting
The seventh meeting of the fifth session of the Board	August 27, 2016	On-site meeting
The eighth meeting of the fifth session of the Board	November 26, 2016	On-site meeting
The 2016 first extraordinary meeting of the fifth session of the Board	April 25, 2016	By correspondence
The 2016 second extraordinary meeting of the fifth session of the Board	June 17, 2016	On-site meeting
The 2016 third extraordinary meeting of the fifth session of the Board	June 28, 2016	By correspondence
The 2016 fourth extraordinary meeting of the fifth session of the Board	July 16, 2016	On-site meeting
The 2016 fifth extraordinary meeting of the fifth session of the Board	September 27, 2016	On-site meeting
The 2016 sixth extraordinary meeting of the fifth session of the Board	December 2, 2016	By correspondence
The 2016 seventh extraordinary meeting of the fifth session of the Board	December 14, 2016	By correspondence

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

Directors' Attendance

Director		Special Committees of the Board								
		2016 First		Related Party					Remuneration and Assessment Committee	
		2015 Annual General Meeting	Extraordinary General Meeting	Board of Directors	Strategic Development Committee	Risk Management Committee	Transaction Control Committee	Audit Committee		Nomination Committee
Actual/required attendance (times) ⁽⁴⁾										
Executive Directors	WANG Tianyu	✓		10/11 ⁽¹⁾	2/2					
	SHEN Xueqing	✓		9/11 ⁽¹⁾	2/2					
	FENG Tao ⁽³⁾		✓	5/5 ⁽²⁾	0/2 ⁽⁵⁾					
Non-executive Directors	FAN Yutao	✓	✓	11/11					4/4	
	ZHANG Jingguo		✓	10/11 ⁽¹⁾					4/4	
	MA Jinwei	✓	✓	10/11 ⁽¹⁾		2/4 ⁽⁷⁾	4/10 ⁽⁷⁾			
	LIANG Songwei			7/11 ⁽¹⁾		4/4				
	JI Hongjun	✓	✓	11/11				4/4		
	YU Zhanglin ⁽³⁾		✓	4/5 ⁽¹⁾⁽²⁾			6/10 ⁽⁶⁾			
Independent Non-executive Directors	WANG Shihao			9/11 ⁽¹⁾		4/4			4/4	
	LI Huaizhen			9/11 ⁽¹⁾					4/4	
	XIE Taifeng	✓		11/11			10/10	4/4		
	WU Ge			10/11 ⁽¹⁾			10/10		4/4	
	CHAN Mei Bo Mabel	✓		11/11				4/4	4/4	

Notes:

- (1) The actual attendance being lower than required attendance represents proxy attendance on their behalf when the above Directors are absent from Board meeting in person.
- (2) FENG Tao and YU Zhanglin both have exercised their rights as Directors since CBRC Henan Office approved their qualification on August 4, 2016. Since then, they should attend five Board meetings.
- (3) At the 2015 Annual General Meeting, FENG Tao and YU Zhanglin both were elected as Directors of the Bank with their qualification then not approved. Other absences from the general meetings were due to personal reasons.
- (4) For meetings of special committees, required attendance represents the number of meetings held in the year; actual attendance represents the actual attendance of incumbent Directors.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- (5) Strategic Development Committee held 2 meetings during the Reporting Period, while FENG Tao did not start performing his duties as his qualification was not approved;
- (6) During the Reporting Period, YU Zhanglin was elected as a member of the Related Party Transaction Control Committee under the Board in the 2016 second extraordinary meeting of the Board of the Bank held on June 17, 2016. He started performing his duty after his qualification was approved on August 4, 2016, and was required to attend 6 meetings of the Related Party Transaction Control Committee under the Board, while his actual attendance was 6 times.
- (7) During the Reporting Period, MA Jinwei was elected as a member of the Risk Management Committee under the Board in the fifth meeting of the fifth session of the Board of the Bank held on March 26, 2016, and after being elected, he was required to attend 2 meetings of the Risk Management Committee under the Board, while his actual attendance of was 2 times. Meanwhile, YU Zhanglin was elected as a member of the Related Party Transaction Control Committee under the Board and before taking his office, he had been a member of Related Party Transaction Control Committee under the Board. He was required to attend 4 meetings of the Related Party Transaction Control Committee under the Board, while his actual attendance was 4 times.

4.6 Performance of Duties of Independent Non-executive Directors

At present, the Board of the Bank consists of 5 independent non-executive Directors and the qualification, number and percentage of independent non-executive Directors satisfy the relevant requirements of CBRC, CSRC and the Listing Rules. The 5 independent non-executive Directors of the Bank are not involved in any conflict with the independence issue described in the Rule 3.13 of the Listing Rules. The independent non-executive Directors account for the majority seats and act as chairmen in the Bank's Risk Management Committee, the Related Party Transactions Control Committee, the Audit Committee, the Nomination Committee and Remuneration and Assessment Committee of the Board.

During the Reporting Period, the independent non-executive Directors of the Bank maintained communication with the Bank through attending meetings, discussions, training and other channels. They invested their earnest in the participations of the Board and the Board committees, actively expressing themselves as well as attaching importance to safeguarding the interests of depositors and minority shareholders. The independent non-executive Directors have fully discharged their responsibilities.

During the Reporting Period, the independent non-executive Directors of the Bank issued independent opinions on material matters including profit distribution, information disclosure, appointment of accounting firm, significant related party transactions of the Bank. They have not raised any objections to the resolutions passed at the Board meetings or other meetings during the year.

5 THE BOARD COMMITTEES

The Board of the Bank established 6 committees in accordance with relevant PRC laws and regulations, the Bank's Articles of Association as well as the Listing Rules, namely, the Strategic Development Committee, the Risk Management Committee, the Related Party Transactions Control Committee, the Audit Committee, the Nomination Committee and the Remuneration and Assessment Committee.

During the Reporting Period, the special committees of the Board exercised their duties in an independent, regulated and effective manner in accordance with the law. They held 28 meetings in the year to consider and approve 49 proposals, which effectively enhanced the corporate governance standards of the Bank, improved work efficiency and ensured sustainable and sound development of businesses of the Bank.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

5.1 Strategic Development Committee

The Strategic Development Committee of the Bank currently consisted of three executive Directors (Mr. WANG Tianyu, Mr. SHEN Xueqing and Mr. FENG Tao). The Strategic Development Committee is chaired by executive Director Mr. WANG Tianyu.

The primary duties of the Strategic Development Committee include:

- setting business and management objectives and long-term development strategy for the Bank;
- supervising and checking the implementation of annual business plans and investment plans;
- communicating regularly with the senior management and head of departments in relation to the operations and risks of the Bank, and providing advice and suggestion; and
- other matters authorised by the Board.

During the Reporting Period, the Strategic Development Committee held a total of 2 meetings, in which they focused on the planning and construction of consumer finance companies and county banks of the Bank and continued to push forward integrated operation of the Bank. Resolutions regarding key strategic development of the Bank including the establishment of Jiuding Consumer Finance Co., Ltd (九鼎消費金融有限公司) and Queshan, Xunxian Zhengyin County Bank (確山、浚縣鄭銀村鎮銀行) were considered and approved.

5.2 Risk Management Committee

The Risk Management Committee of the Bank consists of two non-executive Directors and one independent non-executive Director. The two non-executive Directors are Mr. LIANG Songwei and Mr. MA Jinwei. The Risk Management Committee is chaired by the independent non-executive Director Mr. WANG Shihao.

The primary duties of the Risk Management Committee include:

- controlling, managing, monitoring and assessing risks of the Bank;
- reviewing risk control principles, objectives and policies of the Bank, and reporting them to the Board of Directors for deliberation and approval;
- reviewing risk management measures of the Bank and risk management related issues of the Bank;
- discussing significant risk management issues that need to be reported to the Board of Directors for deliberation;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- examining and supervising the risk management work carried out by the senior management in all aspects;
- conducting surveys and evaluations on risk policies, management status and risk tolerance levels of the Bank on a regular basis, and reporting to the Board of Directors;
- providing recommendations on improving risk management and internal control of the Bank;
- formulating authorization management scheme of the Bank and reporting to the Board of Directors for approval;
- being responsible for anti-money laundering duties of the Bank, and organizing and guiding anti-money laundering according to the authorization of the Board of Directors, and assuming responsibility to the Board of Directors; supervising and instructing the anti-money laundering leading team of the Bank; discussing the significant matters related to anti-money laundering and reviewing anti-money laundering work report; assuming authorization and responsibility for the decision-making and treatment of anti-money laundering related significant or sensitive matters;
- being responsible for compliance management of the Bank, organizing and guiding swindle prevention control according to the authorization of the Board of Directors, and assuming responsibility to the Board of Directors;
- preparing overall swindle prevention control policy, promoting and forming swindle prevention control management system; clarifying responsibilities and authorities of the senior management in swindle prevention control; ensuring that necessary measures have been taken by the senior management for effective monitoring, early warning and treatment of risks; proposing overall requirements for swindle prevention control, and reviewing swindle prevention control report; assessing and evaluating effectiveness of swindle prevention control of the Bank; ensuring effective review and supervision of internal audit department to swindle prevention control;
- discussing risk management and internal control system with the management, ensuring that the management has fulfilled its responsibility to establish an effective system. The discussion should cover whether the Bank maintains sufficient resource, staff qualification and experience in accounting, internal auditing and financial reporting function and whether it has sufficient staff training and budget in place; and
- taking the initiative or as designated by the Board to review key findings of risk management and internal control as well as the management's response in this regard.

During the Reporting Period, the Risk Management Committee held a total of 4 meetings to consider and approve the resolutions in relation to the authorization by the Board, the annual comprehensive risk management report and the annual compliance management report.

5.3 Related Party Transactions Control Committee

The Related Party Transactions Control Committee of the Bank consists of one non-executive Director (Mr. YU Zhanglin) and two independent non-executive Directors (Mr. WU Ge and Mr. XIE Taifeng). The Related Party Transactions Control Committee is chaired by independent non-executive Director Mr. WU Ge.

The primary duties of the Related Party Transactions Control Committee include:

- being responsible for the management, review and approval, as authorized by the Board of Directors, of related party transactions, and controlling the risk of related party transactions;
- formulating rules and the control framework relating to related party transactions of the Bank;
- identifying related parties and connected parties and reporting them to the Board of Directors and the Board of Supervisors, and providing the list of related parties of the Bank to relevant staff;
- accepting the filing of general related party transactions;
- reviewing and supervising the control of related party transactions of the Bank, the implementation of related party transaction control by our Directors, senior management and related personnel, and reporting to the Board of Directors;
- reviewing material related transactions and subsequently submit the same to the Board of Directors for approval, and report to the Board of Supervisors as well as the banking regulatory authorities within ten days from the date of approval by the Board of Directors; reporting to the Board of Supervisors about the related party transactions that are related with the Directors and senior management personnel of the Bank within ten working days from date of approval; and
- other matters as required by laws, administrative regulations, department rules, regulatory documents, Listing Rules and the Articles of Associations, the management policies on related party transactions of the Bank as well as those authorized by the Board of Directors.

During the Reporting Period, the Related Party Transaction Control Committee held a total of 10 meetings, at which it considered the resolutions in relation to business cooperation with related parties which satisfy relevant policy requirements.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

5.4 Audit Committee

The Audit Committee of the Bank consists of one non-executive Director (Mr. JI Hongjun) and two independent non-executive Directors (Mr. XIE Taifeng and Ms. CHAN Mei Bo Mabel). The Audit Committee is chaired by independent non-executive Director Mr. XIE Taifeng.

The primary duties of the Audit Committee include:

- reviewing the risks and compliance status, internal control management system, accounting policies, auditing basic management procedures, financial reporting procedures and financial position of the Bank; auditing the financial information of the Bank, including the integrity of our financial statements and annual report and accounts, interim report and (if prepared for publication) quarterly reports; and reviewing important comments on financial reporting contained in such statements and reports. In this regard, in reviewing the relevant statements and reports before submission to the Board, the committee shall focus particularly on:
 - any changes in the accounting policies and practices;
 - major judgmental areas;
 - significant adjustments resulting from audit;
 - the going concern assumptions and any qualifications;
 - compliance with accounting standards; and
 - compliance with the Listing Rules and other legal or regulatory requirements in relation to financial reporting.
- liaising with the Board and senior management with regard to the aforesaid matters, and must meet, at least twice a year, with the external auditors of the Bank. The committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and shall give due consideration to any matters that have been raised by the Bank's staff responsible for the accounting and financial reporting function, compliance officer (if any) or external auditors;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- relationship with the external auditors of the Bank:
 - making recommendations to the Board of Directors on the appointment, reappointment or removal of the external audit agency, reviewing the fees and terms of engagement of the external audit agency, and handling any matters relating to its resignation or dismissal;
 - reviewing and monitoring the external audit agency's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; discussing with the external auditors on the nature and scope of the audit and reporting obligations before the audit commences;
 - developing and implementing policies on the engagement of an external auditor to provide non-audit services;
 - reviewing the Audit Results Letter presented by an external audit agency to the management, as well as any material queries raised by the audit agency to the management about accounting records, financial accounts or monitoring systems, and the management's response;
 - ensuring that the Board will provide a timely response to the issues raised in the Audit Results Letter; and
 - acting as the key representative body for overseeing the Bank's relations with the external audit agency and being responsible for the communications between internal and external auditors to ensure that internal and external audit work has been coordinated.
- being responsible of the Bank's annual audit and overseeing the senior management to rectify the issues raised in the audit and implement audit recommendations;
- being responsible of reviewing and approving the Bank's internal audit system and supervising its implementation, reviewing, evaluating and reporting to the Board of Directors on the internal audit on a regular basis, and ensuring that the internal audit department has sufficient resources for operation and proper status; reviewing and monitoring the effectiveness of internal audit;
- examining the Bank's financial reporting system, risk management and internal control system and their implementation:
 - reviewing and monitoring financial control, and reviewing risk management (except where there is a risk management committee separately set up under the Board or where the Board will unequivocally handle it by itself) and internal control systems of the Bank, reviewing relevant rules and regulations and their implementation, and examining and evaluating the compliance and effectiveness of major business activities of the Bank;
 - discussing the risk management and internal control system with the management and continuously examining and supervising whether the management has performed its duties and has an effective system in place. The discussion shall include the adequacy of resources, qualification and experience of employees, training of employees and the relevant budget, in terms of accounting and financial reporting of the Bank;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- overseeing and reviewing the construction of the Bank's internal control system, organizing self-evaluations of internal control status in the Bank and reviewing the evaluation report on the Bank's internal control;
 - ensuring the Bank has adequate arrangements for employees to anonymously raise concerns on any irregularities which may occur in the Bank's financial reporting, internal control and other aspects and for the Bank to conduct a fair and independent investigation and take appropriate action on such matters; and
 - studying the significant investigation results of risk management and internal control issues and feedback of the management on the investigation results proactively or under the instruction of the Board of Directors.
- studying other duties as defined by the Board; and
 - other matters as required by laws, regulations, department rules, regulatory documents, Listing Rules and the Articles of Associations as well as those authorized by the Board of Directors.

During the Reporting Period, the Audit Committee held a total of 4 meetings to consider and approve the resolutions in relation to the 2015 Working Report and the 2016 Working Plan of the Audit Committee of the Board, amendments to Internal Audit Regulations and working rules for the Audit Committee of the Board.

5.5 Nomination Committee

The Nomination Committee of the Bank consists of one non-executive Director (Mr. FAN Yutao) and two independent non-executive Directors (Mr. WU Ge and Ms. CHAN Mei Bo Mabel). The Nomination Committee is chaired by independent non-executive Director Ms. CHAN Mei Bo Mabel.

The primary duties of the Nomination Committee include:

- reviewing the structure, size and composition (including skills, knowledge and experience) of the Board of Directors and the management every year according to the operations, management, asset scale and equity structure of the Bank, and providing suggestions to possible changes of the Board of Directors based on the strategy of the Bank;
- formulating the criteria and procedures for selecting Directors and members of senior management, and providing suggestions to the Board;
- conducting the preliminary examination of qualifications of candidates for Directors and senior management, and making recommendations to the Board;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- identifying extensively qualified candidates for Directors and senior management, formulating training plan for senior management and key talent reserves and making recommendations to the Board;
- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the President; and
- other duties required in the laws, administrative regulations, department rules or the Listing Rules and authorised by the Directors.

During the Reporting Period, the Nomination Committee held a total of 4 meetings, at which the resolutions regarding the nominations of Mr. YU Zhanglin, Mr. MA Jinwei, and Mr. FENG Tao as a candidate for director, member of the Risk Management Committee of the Board and candidate for director respectively and the 2015 annual work report of the Nomination Committee were considered and approved.

5.6 Remuneration and Assessment Committee

The Remuneration and Assessment Committee consists of one non-executive Director (Mr. ZHANG Jingguo) and two independent non-executive Directors (Mr. WANG Shihao and Mr. LI Huaizhen). The Remuneration and Assessment Committee is chaired by independent non-executive Director Mr. LI Huaizhen.

The primary duties of the Remuneration and Assessment Committee include:

- reviewing remuneration management system and policies of the Bank;
- studying the criteria for appraising Directors and senior management, conducting the appraisal and making proposals;
- making proposals to the Board in relation to remuneration policies and structure applying to Directors and senior management of the Bank, and establishment of formal and transparent procedures for formulating such remuneration policies, and supervising and modifying the execution of remuneration procedures of the Bank; The Remuneration Committee shall consult with the Chairman or the President of the Bank in respect of the proposed remunerations for other executive Directors and senior management;
- reviewing and approving the management's remuneration proposals with reference to the corporate goals and objectives established by the Board;
- making recommendations to the Board on the remuneration packages of individual executive Directors and senior management members;
- making recommendations to the Board on the remuneration of non-executive Directors;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- making recommendations on employment conditions for other positions of the Bank by taking into consideration remuneration of similar company, time requested and responsibilities;
- reviewing and approving any compensations payable to executive Directors and senior management for their losses or terminations of office or appointments to ensure that such compensations are consistent with contractual terms; and are otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to dismissal or removal of any Director for his or her misconduct to ensure that such arrangements are consistent with contractual terms; and are otherwise reasonable and appropriate;
- reviewing duty performance of the Directors and senior management and making annual performance assessment on them;
- ensuring that neither any director nor any of his or her associates (as defined in the Listing Rules) is involved in deciding his or her own remuneration; and
- other duties required in the laws, administrative regulations, department rules or the Listing Rules and authorised by the Directors.

During the Reporting Period, the Remuneration and Assessment Committee held a total of 4 meetings, at which the resolutions in relation to the Administrative Measures on Remuneration and Performance of senior management of the Bank, remuneration standards of Non-executive directors and independent non-executive directors of the Board, implementing rules of performance appraisal on senior management of the Bank and the 2015 annual work report of the Remuneration and Assessment Committee were considered and approved.

5.7 Corporate Governance Functions

The Board is responsible for establishing sound corporate governance practices and procedures of the Bank. During the Reporting Period, the Board had performed the following duties within its terms of reference:

- formulated and reviewed the Bank's corporate governance policies and practices, and made recommendations;
- reviewed and monitored the training and continuous professional development of Directors and senior management;
- reviewed and monitored the Bank's policies and practices in respect of compliance with laws and regulatory requirements;
- formulated, reviewed and monitored the codes of conduct for Directors and employees; and
- reviewed compliance with the Corporate Governance Code and the disclosures in the Corporate Governance Report of the Bank.

6 MANAGEMENT

The management, as the executive body of the Bank, is accountable to the Board and supervised by the Board of Supervisors. The division of authority between the management and the Board is implemented in accordance with the Articles of Association and other corporate governance documents of the Bank.

The Bank has one president and several vice presidents appointed or dismissed by the Board of Directors. The president shall be accountable to the Board of Directors. The president shall perform the following duties and powers:

- to take charge of the operation and management of the Bank, to organize the implementation of the resolutions of the Board of Directors and to report the work to the Board of Directors;
- to submit annual business plans and investment proposals to the Board of Directors and to organize the implementation upon approval by the Board of Directors;
- to draft proposals on the establishment of the Bank's internal management entities;
- to draft the Bank's basic management system;
- to formulate the Bank's specific regulations;
- to propose to the Board of Directors to appoint or dismiss the vice presidents, assistant to the president, finance chief and other senior management personnel;
- to determine to appoint or dismiss persons in charge of the internal departments and branches of the Bank other than those to be appointed or dismissed by the Board of Directors; and to determine their salaries, benefits and reward or punishment according to the remuneration reward and punishment scheme fixed by the Board of Directors;
- to authorize senior management personnel of the Bank and persons in charge of internal departments and branches to conduct operational activities;
- to decide on the appointment and dismissal of the Bank's staff, and on matters relating to wages, benefits, reward and punishment;
- to adopt emergency measures when any material emergency arises and promptly report them to the banking regulatory and administrative authorities under State Council, the Board of Directors and the Board of Supervisors; and
- other powers and rights conferred by applicable laws, administrative regulations, departmental rules, regulatory documents, the regulations of the relevant regulatory authorities, the Articles and by the Board of Directors.

7 BOARD OF SUPERVISORS

The Board of Supervisors, as the supervisory body of the Bank, aims to protect the legitimate rights of the Bank, Shareholders, staff, depositors and other stakeholders. It is responsible for supervising the accounting activities, risk management, internal control and the performance of the Board, Directors, senior management and its members. It is accountable to the general meeting.

Composition of the Board of Supervisors

Our Board of Supervisors currently consists of nine Supervisors, three for each of shareholder Supervisors, employee Supervisors and external Supervisors. The structure of our Board of Supervisors is reasonable, and is sufficiently professional and independent to ensure the effective performance of its supervisory role.

During the Reporting Period, the Board of Supervisors fulfilled its duties diligently, supervised the legal compliance of performance of duties by Directors and the senior management. They also performed audit on the executive Directors and the senior management as required. They audited and supervised the financial activities, risk management and internal control and investigated any abnormal operating activities of the Bank.

Responsibilities and Operating Model of the Board of Supervisors

The primary duties of our Board of Supervisors include

- to examine the regular reports of the Bank compiled by the Board of Directors and submit its opinion of examination in writing;
- to supervise the performance by and due diligence of the Board and senior management personnel of their duties;
- to query the Directors, the Board and senior management;
- to conduct exit audits towards Directors and senior management when necessary;
- to require Directors and senior management personnel to rectify their acts which are detrimental to the interest of the Bank;
- to inspect and supervise financial activities of the Bank;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- to audit the business decision-making, risk management and internal control of the Bank, if necessary;
- to propose dismissal or initiate legal proceedings against Directors or senior management personnel who violate laws, administrative regulations, the Articles of Association or resolutions of the general meeting;
- to propose to convene an extraordinary general meeting and convene and preside over the general meeting in the event that the Board has failed to fulfil its duty stipulated by the Company Law to convene and preside over the general meeting;
- to make proposals to the general meeting;
- to propose to convene an interim Board meeting;
- to examine financial information such as financial reports, business reports and profit distribution plans proposed to be submitted to the general meeting by the Board, to conduct investigations if there are any doubts or irregularities in relation to the operation of the Bank, and to engage professionals from accountant firms or law firms etc. if necessary to assist its duties at the expenses of the Bank;
- to make proposals regarding the remuneration (or allowance) of the Supervisors; and
- to exercise any other functions and powers conferred by applicable laws, administrative regulations, departmental rules, regulatory documents and the Article of Association of the Bank, and authorized by the general meetings.

Operating Model of the Board of Supervisors of the Bank

This includes convening regular Supervisor meetings, attending general meetings, to be in-attendance at the Board meetings and certain Board committee meetings, to be in-attendance at the relevant meetings of the senior management, reviewing various documents and materials from the senior management, receiving the work report and project report of the senior management, evaluating the annual performance of Directors and the senior management, facilitating communications with Directors and the senior management, conducting exit audits of our executive Directors and the senior management, conducting investigation and research on branch institutions, carrying out a variety of special investigations, etc. Through the above work, the Board of Supervisors monitors and evaluates our operation and management, risk management and internal control, as well as the performance of Directors and the senior management.

During the Reporting Period, the Board of Supervisors supervised the 2015 annual performance of the Board of Directors, Directors, the senior management and Supervisors of the Bank, and gave feedback to the Board of Directors and the senior management.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

7.1 Meetings of the Board of Supervisors and Attendance of Supervisors

During the Reporting Period, the Board of Supervisors held a total of 8 meetings, with 2 Nomination Committee meetings and 4 Supervision Committee meetings to review and supervise the financial position, significant credit grants, internal control compliance, risk control and internal audit as well as performance of duty and compliance of laws and regulations by the Directors, senior management and senior officers of the Bank.

Attendance of Supervisors at Supervisor Meetings During the Reporting Period

Name	Required attendance	Attendance in person	Attendance by proxy
ZHAO Lijuan	5	5	—
TANG Yunwei	8	7	1
LIU Yuhui	8	6	2
XU Changsheng	5	5	—
MENG Jun	8	7	1
ZHU Zhihui	8	6	2
DUAN Ping	8	8	—
ZHANG Chungu	8	8	—
CUI Huarui	8	8	—

Attendance at General Meetings During the Reporting Period

During the Reporting Period, all Supervisors attended the Annual General Meeting and Extraordinary General Meetings and supervised the legal compliance of the procedures of meetings and the voting process on-site.

Attendance at the Meetings of the Board and the Senior Management During the Reporting Period

During the Reporting Period, the Supervisors attended physical meetings of the Board of Directors, and supervised legal compliance of the meetings and procedures of voting as well as the attendance, speech and voting of Directors. The Board of Supervisors also sent representatives to attend the relevant meetings of the senior management and supervised the execution of resolutions of the Board of Directors by the senior management and the business conducted by the senior management according to the Articles of Association and the authorization by the Board of Directors.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

7.2 Operation of Special Committees of the Board of Supervisors

No.	Special Committees of the Board of Supervisors	Chairman	Members
1	Nomination Committee	LIU Yuhui	ZHU Zhihui, DUAN Ping
2	Supervision Committee	TANG Yunwei	MENG Jun, ZHANG Chungu

The Nomination Committee under the Board of Supervisors

Primary duties of the Nomination Committee include:

- formulating the selection procedures and standards of Supervisors, preliminarily reviewing the qualifications of candidates for Supervisors and making recommendations to the Board of Supervisors; supervising the process of election and appointment of Directors;
- conducting overall assessment on the performance of duties by the Directors, Supervisors and senior management and submitting reports to the Board of Supervisors;
- supervising the scientificness and reasonableness of the remuneration management system and policies of the whole Bank and the remuneration package for its senior management members; and
- any other matters authorized by the Board of Supervisors.

In 2016, the Nomination Committee under the Board of Supervisors held a total of 2 meetings to consider and approve the resolutions in relation to the "Assessment Report on the Performance of the Board of Bank of Zhengzhou in 2015" and the "Assessment Report on the Performance of Duties by Directors and Independent Directors in 2015", and to consider the "2017 Work Plan of the Nomination Committee of the Fifth Session of the Board of Supervisors of Bank of Zhengzhou".

Supervision Committee under the Board of Supervisors

The primary duties of the Supervision Committee include:

- formulating plans for supervision of financial activities of the Bank and implementing relevant inspection;
- supervising the Board of Directors to adopt prudent business philosophy and value standards and formulating development strategies in line with the actual situations of the Bank;

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

- monitoring and reviewing the operation strategy, risk management and internal control of the Bank; and
- any other matters authorized by the Board of Supervisors. The Supervision Committee of the Board of Supervisors may conduct investigation on special affairs of the Bank, and the results of investigation shall be reported to both of the Board of Supervisors and the Board of Directors.

During the Reporting Period, the Supervision Committee of the Board of Supervisors held a total of 4 meetings, at which the resolutions in relation to the “2015 Profit Distribution Plan of Bank of Zhengzhou Co., Ltd.” and the “2017 Work Plan of the Supervision Committee of the Fifth Session of the Board of Supervisors” were considered and approved.

8 FINANCIAL, BUSINESS AND FAMILY RELATIONSHIP AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors, Supervisors and senior management of the Bank do not have any relationship, including financial, business, family and other material relations.

9 TRAINING AND RESEARCH OF DIRECTORS AND SUPERVISORS DURING THE REPORTING PERIOD

Training and Research of Directors:

All the Directors have attended the training and seminar with respect to the condition of A-share market and the relevant laws and regulations as given by China Merchants Securities and the training and seminar with respect to the Directors’ responsibilities before and after listing in A-share market and relevant laws as provided by King & Wood Mallesons Beijing.

During the Reporting Period, the Board conducted a research on Guilin Bank in which part of our Directors participated.

Training and Research of Supervisors:

During the Reporting Period, the Board of Supervisors conducted research work in certain subsidiaries of Bank of Zhengzhou such as Zhongmou Zhengyin Country Bank and Jiuding Financial Leasing Company. During the research process, supervisors had in-depth discussions with the executives and employees of those subsidiaries.

During the Reporting Period, our supervisor of employees, supervisor of shareholder and external supervisors attended to the training provided by China Merchants Securities and King & Wood Mallesons Beijing in respect of the corporate governance after listing on A-share market in order to have a better understanding on the requirements on the governance of a listed company.

10 JOINT COMPANY SECRETARIES UNDER THE LISTING RULES

Mr. FU Chunqiao and Ms. LEUNG Wing Han Sharon, vice president of SW Corporate Services Group Limited, have been appointed by the Bank as its joint company secretaries. Ms. Leung's main contact person at the Bank is Mr. FU Chunqiao, another joint company secretary. For the year ended December 31, 2016, both of Ms. LEUNG Wing Han Sharon and Mr. FU Chunqiao have received not less than 15 hours of relevant professional trainings in accordance with the requirement under Rule 3.29 of the Listing Rules.

11 COMMUNICATION WITH SHAREHOLDERS

Investors Relationship

The Bank attaches importance to communication with Shareholders, and seeks to improve mutual understanding and communication with Shareholders through various channels including general meeting, roadshows and press conference and enhance communication with Shareholders via the official website, e-mail and telephone.

For enquiries to the Board, investors may contact: The Office of Board of Directors of Bank of Zhengzhou Co., Ltd.
Address: 22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan, PRC
Tel: +86-371-67009199 Fax: +86-371-67009898
Email: ir@zzbank.cn

Information Disclosure

The Board of Directors and senior management place great importance to information disclosure. They rely on good corporate governance and internal controls to ensure investors obtain information in a timely, accurate and fair manner.

In accordance with the requirements of the Listing Rules and Measures for the Information Disclosure of Commercial Banks, the Bank continuously improved the timeliness, accuracy and completeness of the information to be disclosed. During the Reporting Period, the full version of the annual reports in both English and Chinese is available on the website of the Bank. Meanwhile, the Chinese and English versions of the annual report are available for review by the investors and stakeholders in Board of Director's office of the Bank.

12 SHAREHOLDERS' RIGHTS

12.1 Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to the Articles of Association and the Rules of Procedures of General Meetings of the Bank, a class meeting or extraordinary general meeting shall be convened within two months upon request in writing by Shareholders holding individually or collectively 10% or more of the voting Shares of the Bank (the "**Requesting Shareholders**").

General meetings shall be convened by the Board. If the Board of Directors or the Board of Supervisors are unable to or unwilling to fulfil their duties in convening a general meeting, Shareholders individually or collectively holding 10% or more of the Bank's Shares for ninety consecutive days or more (the "**Convening Shareholders**") may convene and preside over the meeting on a unilateral basis.

The proposal to the Board of Directors for the convening of a general meeting shall be made in writing. The Board of Directors shall, in accordance with the laws, administrative regulations and the Articles of Association of the Bank, furnish a written reply stating its agreement or disagreement to the convening of the meeting within ten days after receiving such proposal.

In the event that the Board of Directors agrees to convene a meeting, the notice of meeting shall be issued within five days after the passing of the relevant resolution of the Board of Directors. Any changes to the original proposal made in the notice require prior approval of the Shareholders concerned.

If the Board of Directors does not agree to convene a meeting or does not furnish any reply within ten days after receiving such proposal, Shareholders individually or collectively holding 10% or more of the Bank's Shares shall have the right to propose to the Board of Supervisors for the convening of such meeting, provided that such proposal shall be made in writing.

In the event that the Board of Supervisors agrees to convene the meeting, the notice of meeting shall be issued within five days after receiving such request. Any changes to the original proposal made in the notice shall require prior approval of the Shareholders concerned.

Failure of the Board of Supervisors to issue the notice of meeting shall be deemed as failure of the Board of Supervisors to convene and preside over it, and Shareholders individually or collectively holding 10% or more of the Bank's Shares for ninety consecutive days or more may convene and preside over the meeting on a unilateral basis.

12.2 Procedures for Putting Forward Proposals at General Meeting

Shareholders collectively holding 3% or more of the voting Shares (the "**Proposing Shareholders**") have the right to put forward proposals in writing to the Bank. The Proposing Shareholders may submit provisional proposals in writing to the convener ten days before the general meeting is convened. The convener shall issue a supplementary notice of the general meeting within two days after receiving the provisional proposals.

CHAPTER VIII CORPORATE GOVERNANCE REPORT (Continued)

13 EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

Upon consideration and approval at the 2015 Annual General Meeting convened on June 17, 2016, the Bank reappointed KPMG and KPMG Huazhen (Special General Partnership) as the Bank's international and domestic auditors for 2016, whose term of office would end after the Bank's 2016 Annual General Meeting.

In 2016, the Bank agreed to pay KPMG Huazhen LLP RMB2.55 million as remuneration for auditing the financial statements for the year. Other remuneration (mainly including fees for reviewing the half-year financial statements) was RMB0.95 million.

14 INTERNAL CONTROL

The Bank had established an internal control system covering the elements of internal control environment, risk identification and assessment, internal control activities, internal supervision and information and communication according to laws and regulations including the Company Law of the People's Republic of China (中華人民共和國公司法), PRC Banking Supervision and Regulatory Law (中華人民共和國銀行業監督管理法), Commercial Bank Law (商業銀行法), and rules including the Guidelines on Internal Control of Commercial Banks (商業銀行內部控制指引) and Basic Norms of Corporate Internal Control (企業內部控制基本規範). The Board of the Bank is responsible for ensuring the establishment and implementation of adequate and effective internal control system by the Bank. The Board of Supervisors is responsible for supervising the improvement of internal control systems by the Board of Directors and senior management. Senior management is responsible for the building and improvement of internal organization, ensuring the effective performance of various internal control duties.

The Bank continuously optimizes the rules, workflows and IT system of its internal control system, carries out work in relation to internal control regularly such as compliance inspections and assessments and also encourages each functioning department and branch to enhance their risk management and perfect their internal control measures. During the Reporting Period, management of the Bank prepared the 2015 Annual Report on Overall Risk Management in Bank of Zhengzhou Co., Ltd. (鄭州銀行股份有限公司2015年度全面風險管理報告), the 2015 Annual Report on Compliance Management in Bank of Zhengzhou Co., Ltd. (鄭州銀行股份有限公司2015年度合規管理報告) and the 2015 Annual Report on Assessment of the Internal Control and Risk Management System in Bank of Zhengzhou Co., Ltd. (鄭州銀行股份有限公司2015年度內部控制和風險管理系統評價報告) which were submitted to the Board for consideration.

In accordance with laws and regulations including the Company Law of the People's Republic of China (中華人民共和國公司法), Guidelines on Corporate Governance of Commercial Banks (商業銀行公司治理指引) as well as the Listing Rules of the Hong Kong Stock Exchange, the Board of the Bank made amendments to working rules of its functional organisations such as the Audit Committee, Risk Management Committee and Related Party Transaction Control Committee, to ensure effective supervision on the internal control system operation. During the Reporting Period, the Board of the Bank, after assessing the effectiveness of the Bank's internal control system operation, was not aware of any material deficiency in the design and implementation of our internal control and risk management system.

15 RISK MANAGEMENT

15.1 Procedures for identification, assessment and management of material risks

Based on the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法 (試行)) and its schedules issued by the CBRC, risks and relevant terminology defined by the Basel Committee, practice of the domestic and overseas peers as well as its own situation, the Bank identifies, measures and controls various overall quantitative and non-quantitative risks which may arise from the interaction between business strategies, product portfolios, client demands and the macro-economic environment.

Taking into account the capital occupancy based on risk types, risks of banks determined by regulators and capital regulatory requirements together with results from identifying and assessing risk events, the Bank collects and publishes risk warnings, draws up risk event examples, identifies, collects and assesses risk events and then determines material risks for the purpose of identifying its material risks, which include credit risk, market risk, operational risk, liquidity risk, interest risk in bank accounts, compliance risk, legal risk, reputation risk and strategy risk, and subsequently making assessment and analysis on them with risk measurement approaches and techniques.

15.2 Responsibility of the Board on Risk Management

In accordance with laws and regulations including the Overall Risk Management Guidelines for Commercial Banks (商業銀行全面風險管理指引) and the Internal Control Guidelines for Commercial Banks (商業銀行內部控制指引) as well as relevant requirements of the Hong Kong Stock Exchange, the Board of the Bank has formulated the Basic Rules of Overall Risk Management in Bank of Zhengzhou (鄭州銀行全面風險管理基本制度), Measures for Risk Preference Management in Bank of Zhengzhou (鄭州銀行風險偏好管理辦法), Measures for Risk Limit Management in Bank of Zhengzhou (鄭州銀行風險限額管理辦法). It not only established and implemented risk management and internal control system, but is also responsible for timely reviewing the effectiveness of such rules and system. The Board of the Bank is of the opinion that the risk management and internal control system established and implemented by the Bank is adequate and effective. The risk management and internal control system of the Bank is designed to manage the risk of failing to meet business targets rather than eliminating such risk, and only provides reasonable but not absolute assurance for not making material misstatement and losses.

16 INSIDE INFORMATION MANAGEMENT

The Board of the Bank is responsible for disclosing information of the Bank, which includes enacting standard procedures and methods in relation thereto and reviewing information to be disclosed, and it also assumes liabilities for the truth, accuracy and completeness of the information disclosed. The information disclosure of the Bank is subject to the supervision of regulators and the Bank's Board of Supervisors. Chairman of the Board is the primary person responsible for implementing the management measures for information disclosure, while the Secretary of the Board is in charge of its execution and the Office of the Board deals with the daily work thereof.

To ensure confidentiality of the Bank's inside information, safeguard the fairness in information disclosure and protect the legal rights of investors, the Bank enacted the Measures for Information Disclosure Management in Bank of Zhengzhou Co., Ltd. (鄭州銀行股份有限公司信息披露管理辦法) based on domestic and overseas laws, regulations and other regulatory documents such as the Company Law of the People's Republic of China (中華人民共和國公司法), the Securities Law of the People's Republic of China (中華人民共和國證券法), Measures for Information Disclosure Management of Commercial Banks (商業銀行信息披露管理辦法), and the Listing Rules.

The Bank makes information disclosure and manages inside information in strict compliance with the regulatory requirements and specifies the principles, contents, management and procedures for information disclosure in the Measures for Information Disclosure Management in Bank of Zhengzhou Co., Ltd., which also provides for the coverage, insider limits and the security management of inside information as well as punishment for divulging inside information, etc.

During the Reporting Period, the Bank not only stringently complied with the regulatory requirements of domestic and overseas regulators, but also intensified its management rules and enhanced the security measures of its inside information as well as disclosing relevant information timely according to requirements.

17 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, to further satisfy the requirements in corporate governance and regulated operations after listing, the Bank made amendments to the Articles of Association in relation to joint holders of a share and election of external Supervisors with reference to the relevant requirements from Hong Kong Securities Clearing Company Limited and the Work Guidelines on the Board of Supervisors of Commercial Banks (商業銀行監事會工作指引). The proposal regarding the amendments to the Articles of Association was considered and approved at the 2015 Annual General Meeting held on June 17, 2016 and has obtained the approval from CBRC Henan Office on August 31, 2016.

During the Reporting Period, to satisfy the requirements in corporate governance after listing of A Shares, the Bank made amendments to the Articles of Association with reference to the actual situation of the Bank in line with the Securities Law of the People's Republic of China, the Guidelines for the Articles of Association of Listed Companies, CSRC Announcement [2014] No. 47 – the Guidelines for the Articles of Association of Listed Companies (2014 second revision) and other domestic laws, regulations and other regulatory documents. The proposal regarding the amendments to the Articles of Association has been considered and approved at the 2016 first Extraordinary General Meeting held on September 27, 2016, and the approval issued by CBRC Henan Office was received on December 7, 2016. The said Articles of Association will take effect commencing from the listing date of A Shares.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS

Directors of the Bank hereby present the report of the Board of Directors together with the audited financial statements of the Group for the year ended December 31, 2016.

1 PRINCIPAL BUSINESS AND BUSINESS REVIEW

The Bank is primarily engaged in PRC banking and related financial services, including corporate banking, personal banking, treasury operation and other businesses.

Further discussion and analysis of the business review as required by Schedule 5 to the Hong Kong Companies Ordinance, including the key risks and uncertainties faced by the Group and the possible future development plan of the Group's business, are set out in sections of "Management Discussion and Analysis" and "Directors, Supervisors, Senior Management, Staff and Institutions" of this annual report. Such discussions form an integral part of this "Report of the Board of Directors".

2 ANNUAL GENERAL MEETING, RESULTS AND DIVIDENDS

2.1 Annual general meeting

The Bank proposes to hold the 2016 Annual General Meeting on May 19, 2017 (Friday). In order to determine the list of Shareholders who are entitled to attend and vote at the 2016 Annual General Meeting, the Bank's register of members will be closed from April 19, 2017 (Wednesday) to May 19, 2017 (Friday), both days inclusive, during which period no transfer of Shares will be effected. The Shareholders included in the Bank's register of Shareholders on May 19, 2017 (Friday) shall be entitled to attend and vote at the 2016 Annual General Meeting. In order to be eligible for attending and voting at the 2016 Annual General Meeting, all transfer documents together with relevant share certificates and other appropriate documents shall be sent for registration to the office of the Board of the Bank at 22 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou City, Henan Province, the PRC (for holders of Domestic Shares) or to the H Share Registrar, namely, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) before 4:30 p.m. on April 18, 2017 (Tuesday).

The Bank will despatch the notice and circular for the 2016 Annual General Meeting in due course.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

2.2 Dividends

The results of the Bank for the year ended December 31, 2016 and the state of affairs of the Group as at that date are set out in the financial statements and notes thereto in this annual report.

Pursuant to the resolutions passed at the Bank's 2015 Annual General Meeting, the Bank paid a cash dividend of RMB2.00 (tax inclusive) for every ten Shares of the Bank in an aggregate amount of approximately RMB1,064.39 million (tax inclusive) for the year ended December 31, 2015 to all the Shareholders of the Bank whose names appeared on the register of members on June 28, 2016. Such dividend was denominated in Renminbi.

The Board has proposed the payment of a cash dividend of RMB2.20 (tax inclusive) for every ten Shares of the Bank for the year ended December 31, 2016 in an aggregate amount of approximately RMB1,171 million (tax inclusive) to all the Shareholders of the Bank. Payment of such dividend to the Shareholders is subject to consideration and approval of the dividend distribution plan at the 2016 Annual General Meeting. It is expected that such dividend will be paid on June 15, 2017 (Thursday). In case of any change to the date of distribution, the Bank will publish an announcement in respect of the change.

Such proposed dividend will be denominated in Renminbi. Dividend payable to holders of Domestic Shares shall be paid in Renminbi, whereas dividend payable to holders of H Shares shall be paid in Hong Kong Dollar. The exchange rate of RMB to Hong Kong Dollar to be adopted shall be the average middle rates for the five business days preceding the date of declaration of such dividend at the 2016 Annual General Meeting (i.e. May 19, 2017 (Friday), inclusive) as announced by the PBoC.

The Bank will pay such dividend to holders of Domestic Shares and holders of H Shares whose names appeared on the register of members on May 31, 2017 (Wednesday). The register of members of the Bank will be closed from May 26, 2017 (Friday) to May 31, 2017 (Wednesday) (both days inclusive), during which period no transfer of H Shares will be registered.

In order to be entitled to the final dividend, holders of H Shares of the Bank who have not registered the related transfer documents are required to lodge the transfer documents, together with the relevant share certificates, with the Bank's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on May 25, 2017 (Thursday).

The cash dividends and ratios of cash dividends to the profit of the Bank for the past three years are as follows:

	2015	2014	2013
	<i>Unit: millions of RMB except percentages</i>		
Cash dividend (tax inclusive)	1,064.39	709.55	591.29
As a percentage of net profit for the year	32%	30%	30%

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

2.3 Tax on Dividends

Withholding and payment of enterprise income tax on behalf of overseas non-resident enterprises

Pursuant to the applicable provisions and the implementing regulations of the Enterprise Income Tax Law of the PRC 《中華人民共和國企業所得稅法》, when distributing the final dividend to non-resident enterprise holders of H Shares (including the H Shares registered in the name of HKSCC Nominees Limited), the Bank will withhold and pay enterprise income tax at the rate of 10%.

Withholding and payment of individual income tax on behalf of overseas non-resident individual Shareholders

Pursuant to the applicable provisions and the implementing regulations of the Individual Income Tax Law of the PRC 《中華人民共和國個人所得稅法》 and the Announcement of the State Administration of Taxation on the Administrative Measures on Enjoying Tax Treaty Treatment by Non-resident Taxpayers (Announcement No. 60 [2015] of the State Administrative of Taxation) (“**Tax Treaty Announcement**”), the Bank will withhold and pay individual income tax for the holders of H Shares according to the following arrangement:

For individual H Shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into tax treaty with the PRC stipulating a tax rate of 10%, the Bank will withhold and pay individual income tax at the rate of 10% on behalf of these individual H Shareholders when distributing the final dividend;

For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into tax treaty with the PRC stipulating a tax rate of less than 10%, the Bank will temporarily withhold and pay individual income tax at the rate of 10% when distributing the final dividend. If the relevant individual H Shareholders would like to apply for refund of the excess amount of tax withheld and paid, the Bank will handle, on their behalf, applications for tax treatments under the relevant tax treaties according to the Tax Treaty Announcement. Qualified Shareholders are requested to submit in time written authorisation and all application materials as required under the Tax Treaty Announcement to the Bank’s H Share Registrar, Computershare Hong Kong Investor Services Limited. The Bank will then submit the above documents to the competent tax authorities and, after their examination and if and when approved, the Bank will assist in refunding the excess amount of tax withheld and paid;

For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Bank will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of these individual H Shareholders when distributing the final dividend; and for individual H Shareholders whose country (region) of domicile is a country (region) which has entered into tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Bank will withhold and pay individual income tax at the rate of 20% on behalf of these individual H Shareholders when distributing the final dividend.

The Bank will generally follow the above arrangements to withhold and pay individual income tax on behalf of holders of H Shares, but if relevant tax authorities require otherwise, the Bank will follow such requirements for arrangements.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

3 SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

For details of the share capital and substantial Shareholders of the Bank, please refer to “Changes in Share Capital and Information on Shareholders”.

4 USE OF PROCEEDS

For details of issuance and listing of the Shares conducted by the Bank during the Reporting Period and use of proceeds of the Bank, please refer to the “Significant Events”.

5 RESERVES

Details of movements in reserves of the Bank for the year ended December 31, 2016 are set out in the consolidated statement of changes in equity.

6 PROPERTY AND EQUIPMENT

Details of movements in property and equipment of the Bank are set out in Note 23 of the financial statements.

7 CONNECTED TRANSACTIONS

In the ordinary and usual course of business, the Bank offers commercial banking services and products to the public in China, including certain connected persons such as Shareholders, Directors, Supervisors, President and/or their respective associates. Pursuant to the Listing Rules, such transactions, being conducted on normal commercial terms in the ordinary and usual course of the business of the Bank, shall be exempt from reporting, annual review, disclosure and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. The Bank has reviewed all its connected transactions and acknowledged that it had complied with the requirements under Chapter 14A of the Listing Rules.

The definition of connected persons under Chapter 14A of the Listing Rules is different from the definition of related parties under International Accounting Standard, and its interpretations by the IASB. Certain related party transactions set out in Note 37 to the financial statements also constitute connected transactions or continuing connected transactions as defined under the Listing Rules, but none of them constitutes any discloseable connected transaction as defined under the Listing Rules.

8 INTERESTS OF DIRECTORS AND SUPERVISORS IN BUSINESS IN COMPETITION WITH THE BANK

Save as those disclosed in this annual report, none of the Directors or Supervisors of the Bank holds any interest in any business which competes or is likely to compete, whether directly or indirectly, with that of the Bank.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

9 REMUNERATION OF THE DIRECTORS AND SUPERVISORS AND RETIREMENT BENEFITS

Details of the remuneration of the Directors and Supervisors of the Bank are set out in Note 9 of the financial statements. Retirement benefits offered by the Bank to employees are set out in Note 32 of the financial statements.

10 SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

During the Reporting Period, none of the Directors or Supervisors of the Bank entered into a service contract with the Bank which was not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

11 INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

Save as disclosed below, as at December 31, 2016, the interests of Directors, Supervisors and President in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules were set out as follows:

Name	Position	Class of Shares	Nature	Number of Shares held directly or indirectly (Shares) (Long position)	Percentage of the relevant class of Shares in issue (%)	Percentage of all Shares in issue (%)
Wang Tianyu	Director	Domestic Shares	Beneficial owner	18,928	0.0005	0.0004
Zhu Zhihui	Supervisor	Domestic Shares	Interest of controlled corporation	199,046,474	5.23	3.74
Duan Ping	Supervisor	Domestic Shares	Beneficial owner	4,000	0.0001	0.00008
Zhang Chungu	Supervisor	Domestic Shares	Beneficial owner	14,056	0.0004	0.0003

Save as disclosed above, none of the Directors, senior executive or Supervisors held any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as at December 31, 2016.

12 MATERIAL INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

For the year ended December 31, 2016, neither the Bank nor its subsidiary entered into any significant transaction, arrangement or contract in which the Directors or Supervisors or entity connected with the Directors or Supervisors directly or indirectly had a material interest.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

13 ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the Reporting Period was the Bank or any of its subsidiary, a party to any arrangement to enable the Directors and Supervisors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

14 MANAGEMENT CONTRACTS

No management or administration contract in relation to all or substantial parts of the business of the Bank was entered into during the Reporting Period.

15 PURCHASE, SALE OR REPURCHASE OF LISTED SECURITIES OF THE BANK

During the Reporting Period, the Bank and its subsidiary had not purchased, sold or redeemed any listed securities of the Bank.

16 PRE-EMPTIVE RIGHTS

As of December 31, 2016, the Bank does not have provisions in respect of pre-emptive rights in its Articles of Association of the Bank and under the PRC laws.

17 DONATIONS

The Bank made charitable and other donations in an aggregate sum of approximately RMB3.62 million for the year ended December 31, 2016.

18 PUBLIC FLOAT

As at the Latest Practicable Date, according to the information publicly available to the Bank, the Bank has complied with the public float requirements under the Listing Rules.

19 CORPORATE GOVERNANCE

The Bank is committed to maintaining a high standard of corporate governance. Details of corporate governance of the Bank are set out in the "Corporate Governance Report" of this annual report.

20 MAJOR CUSTOMERS

As at the end of the Reporting Period, the balance of the Bank's loans to any single borrower did not exceed 10% of the Bank's net capital. The interest income from the five largest customers of the Bank did not exceed 30% of the Bank's total interest income. None of the Directors of the Bank and their close associates or any Shareholder which to the knowledge of the Directors own more than 5% of the number of issued Shares had any interest in the above five largest customers.

CHAPTER IX REPORT OF THE BOARD OF DIRECTORS (Continued)

21 SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Bank has adopted a code of conduct on terms no less exacting than the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its code governing securities transactions conducted by its Directors and Supervisors and relevant employees. After having made inquiries to all Directors and Supervisors, the Bank confirmed that they had complied with the above code for the Reporting Period. The Bank was not aware that any relevant employee had breached the code.

22 OTHER MATTERS

According to code provision A.1.8, the Bank shall maintain appropriate insurance to cover the potential legal litigations initiated against the Directors of the Bank. In order to comply with such code provision, the Bank has purchased appropriate liability insurance for the Directors and to provide indemnity for their liabilities incurred during the operations of the Bank for the year ended December 31, 2016.

As far as the Board is aware, the Bank has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Bank.

In the meantime, the Bank is committed to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Bank endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

As at the date of this report, the Bank was not aware that any Shareholders had waived or agreed to any arrangement to waive dividends.

As at the date of this report, none of the Directors waived or agreed to any relevant arrangements to waive remuneration.

During the Reporting Period, the Bank had not pledged any significant assets.

During the Reporting Period, there were no significant contracts entered into between the Bank or any of its subsidiaries and a controlling Shareholder or its subsidiaries.

During the Reporting Period, the Bank or any of its subsidiaries had not accepted services provided by a controlling Shareholder or its subsidiaries.

The Bank will publish an environmental, social and governance report for the Reporting Period in compliance with the provisions under the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules.

By order of the Board
Bank of Zhengzhou Co., Ltd.
Wang Tianyu
Chairman

CHAPTER X REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors continued to strengthen its capabilities and improve its executing capability pursuant to the Company Law, the Guidelines on Corporate Governance of Commercial Bank and the Articles of Association, and carried out supervision of performance, finance, internal control and risks to facilitate the regulated operation and sound development of corporate governance.

1 MAJOR WORK OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors successfully completed re-election in accordance with the statutory procedures, enhanced and adjusted its structure, and established the Supervisory Committee and the Nomination Committee pursuant to the law. The Board of Supervisors consists of 9 supervisors, 3 for each of staff Supervisors, shareholder Supervisors and external Supervisors, and each of its committees has 3 members, chaired by an external Supervisor, thus satisfying the regulatory requirements on the composition and proportion of members of Board of Supervisors.

During the Reporting Period, 8 meetings, including 4 on-site meetings and 4 meetings voted via teleconference, were convened by the Board of Supervisors to consider 30 resolutions including business operation, internal control, risk management, corporate governance and the assessment on the performance of duties of the directors and the supervisors, and reviewed 10 reports such as internal audit, connected transactions and quality of assets; and 6 meetings were convened by its special committees to consider reports on performance of duties, financial management, risk management and internal control. In addition, Supervisors attended the general meetings and were in-attendance at all the meetings of the Board, and supervised compliance with the relevant laws and regulations, voting procedures, the directors' attendance of, opinion expressed on and voting results of the general meetings and board meetings, respectively.

During the Reporting Period, all 3 external supervisors were able to perform their supervisory duties independently. The external supervisors discharged their supervisory duties by attending meetings of the Board of Supervisors, convening special committee meetings of the Board of Supervisors, attending the board meetings, participating in the Board of Supervisors' investigations and surveys conducted (on a collective or separate basis) at branch level, proactively familiarizing themselves with the operations and management of the Company, and giving opinions and suggestions on significant matters. During the adjournment of the Board of Directors and Board of Supervisors, the external supervisors were able to review various documents and reports of the Company and exchange opinions with the Board of Directors and senior management on any findings in a timely manner, thereby playing an active role in performing their supervisory duties.

2 INDEPENDENT OPINIONS ON RELEVANT MATTERS

Performance of duties by the Board of Directors and Senior Management

During the Reporting Period, the Board of Directors and senior management performed their duties according to the Guidelines on the Corporate Governance of Commercial Banks and Articles of Association. In promoting the listing of the Bank and its major business decisions, they had displayed solidarity, vision, prudence and steady progress, leading the Bank to achieve a new leap. The senior management continued to improve their capability of implementation of strategic decisions, established and finalised various measures, ensuring the completion of various jobs for the whole year.

CHAPTER X REPORT OF THE BOARD OF SUPERVISORS (Continued)

Compliance with laws and regulations in operations

During the Reporting Period, the operating activities of the Bank in 2016 complied with the requirements of the Company Law, Commercial Banking Law and Articles of Association, and the process of decision making is legitimate and effective. The Directors and senior management are honest, trustworthy and diligent in carrying out their duties. In the course of the Directors and senior management carrying out their duties during the year, no acts in violation of laws and regulations and Articles of Association or detrimental to the interests of the Bank and Shareholders were found.

Truthfulness of financial report

The 2016 annual financial report of the Bank is true and objective, accurately reflecting the financial position and operation results of the Bank.

Related party transactions

During the Reporting Period, the prices of the related party transactions were fair and reasonable and no acts detrimental to the interests of the Bank and Shareholders were found by the Board of Supervisors.

Internal control

During the Reporting Period, the Bank continued to strengthen and improve its internal control system. With the soundness and effectiveness of the system constantly improved, there were no significant defects found in the design and implementation of the internal control system.

Implementation of resolutions of general meetings

During the Reporting Period, the Board of Supervisors had no objections to various reports and proposals submitted to general meetings for consideration. The Board of Supervisors supervised the implementation of resolutions of general meetings and considered the resolutions of general meetings had been diligently implemented by the Board of Directors of the Bank.

CHAPTER XI SIGNIFICANT EVENTS

1 ISSUANCE AND LISTING OF SHARES AND USE OF PROCEEDS

The Bank published an announcement on January 15, 2016 regarding the full exercise of the over-allotment option, announcing that the over-allotment option was fully exercised in respect of an aggregate of 198,000,000 H Shares, representing 15% of the offer shares initially available under the global offering before the exercise of the over-allotment option. Those shares were listed on the Hong Kong Stock Exchange on January 20, 2016. In the initial public offering, the Bank and its state-owned shareholders had issued and sold an aggregate of 1,518,000,000 H Shares at an offer price of HK\$3.85 per share.

The raised funds from the first issuance of H Shares of the Bank, after deducting the issuance expenses and amounts payable to NSSF, the net sales were RMB4,334,658,452, which were all used to replenish the capital of the Bank and put into operation together with other capital of the Bank, which is in line with the undertaking made in connection with the use of proceeds at the H Shares offering.

2 ISSUANCE AND REPURCHASE OF BONDS

The Bank issued financial bonds in 2013 with aggregate principal of RMB5 billion, divided into two types, namely (1) 3-year term with a fixed interest rate of 4.58%, which has been due on May 20, 2016 and fully redeemed by the Bank; and (2) 5-year term with a fixed interest rate of 4.80% and due on May 20, 2018.

The Bank issued 10-year tier II capital bonds in 2014, with aggregate principal of RMB2 billion and interest rate per annum of 5.73%. Such bonds will be due on December 15, 2024.

The 2015 Annual General Meeting approved that, the Board will authorize the management to, after obtaining the approval from the relevant regulatory authorities, issue green financial bonds with an aggregate amount not exceeding RMB5 billion. For details, please refer to the announcement regarding the proposed authorization of the issuance of green financial bonds published on March 26, 2016, and circular regarding the 2015 Annual General Meeting published on April 29, 2016. Such green financial bonds have been approved by CBRC Henan Branch in August 2, 2016, and are yet to be approved by PBoC.

On the 2014 Annual General Meeting convened on June 18, 2015, the Board authorized the management to, after obtaining the approval from the relevant regulatory authorities, issue tier II capital bonds with principal amount of up to RMB3 billion. Upon approval of 2016 first Extraordinary General Meeting of the Bank convened on September 27, 2016, the issuing size of those bonds has been adjusted to not exceeding RMB5 billion. The issuing of such bonds has been approved by CBRC and PBoC on October 25 and December 2, 2016, respectively, and the Bank duly issued the first tranche of tier II capital bonds in an amount of RMB3 billion in the national interbank bond market on December 19, 2016. The bonds are with fixed rate for a term of 10 years. The Bank shall have a redemption right at the end of the fifth year and the coupon rate is 4.10%. For details please refer to the Announcement on Completion of Issuance of Qualified Tier II Capital Bonds published by the Bank on December 21, 2016.

CHAPTER XI SIGNIFICANT EVENTS (Continued)

3 ESTABLISHMENT AND THE OPERATION OF THE JIUDING FINANCIAL LEASING COMPANY

The Bank published an announcement on February 17, 2016 regarding the approval by the CBRC on the establishment of the Jiuding Financial Leasing Company, announcing that the establishment of Jiuding Financial Leasing Company, 51% equity interest of which shall be held by the Bank, has been approved by the CBRC. After completion of the establishment work, the Jiuding Financial Leasing Company shall apply to the CBRC Henan Office for operation approval in accordance with relevant regulations and procedures.

The Bank published an announcement on March 23, 2016 regarding the operation approval by the CBRC Henan Office for the Jiuding Financial Leasing Company, announcing that the operation approval for the Jiuding Financial Leasing Company has been granted by the CBRC Henan Office on March 18, 2016. The Jiuding Financial Leasing Company has officially been in operation since March 23, 2016.

The Jiuding Financial Leasing Company is principally engaged in, among others, financial leasing, transfers of subject assets of financial leases, investment businesses in securities with fixed revenues, acceptance of lease deposit from lessee, sales and disposals of leasing projects and economic consulting.

4 OBTAINING B-CLASS LEAD UNDERWRITING QUALIFICATION FOR DEBT FINANCING INSTRUMENTS OF NON-FINANCIAL ENTERPRISES

The Bank published a voluntary announcement on obtaining B-class lead underwriting qualification for debt financing instruments of non-financial enterprises on May 26, 2016 to announce that according to the Announcement on the Market Assessment Result for Participation by Underwriting Members (Local Banks Category) in B-class Lead Underwriting Business of Debt Financing Instruments of Non-financial Enterprises (關於承銷類會員(地方性銀行類)參與非金融企業債務融資工具B類主承銷業務市場評價結果的公告) (the “**Announcement**”) issued by the National Association of Financial Market Institutional Investors, the Bank obtained B-class lead underwriting qualification for debt financing instruments of non-financial enterprises on May 18, 2016 and became the first city commercial bank in Henan province, the PRC, to obtain lead underwriting qualification for debt financing instruments. The Bank will be able to participate in lead underwriting businesses for debt financing instruments of non-financial enterprises within the territory of Henan province, the PRC, which include short-term financing, medium-term notes, principal-protected notes, ultra short-term financing bonds, asset-backed notes, project revenue notes and perpetual medium-term notes.

5 SIGNIFICANT LITIGATION AND ARBITRATION

During the Reporting Period, there were no litigation and arbitration which had a significant impact on the operating activities of the Bank.

6 SIGNIFICANT RELATED PARTY TRANSACTIONS

During the Reporting Period, there were no significant related party transactions which had an adverse impact on the operating results and financial position of the Bank.

7 PENALTY IMPOSED ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, the Bank and its Directors, Supervisors and senior management had not been subject to inspection, administrative penalty and criticism of the CSRC, public sanction of the Hong Kong Stock Exchange and penalty imposed by other regulatory bodies which had significant impact on the operation of the Bank.

8 PERFORMANCE OF UNDERTAKINGS OF THE BANK AND SHAREHOLDERS WITH SHAREHOLDING OF 5% OR MORE

During the Reporting Period, there were no undertakings given by the Bank or by Shareholders with shareholding of 5% or more of total issued Shares of the Bank.

9 SIGNIFICANT CONTRACTS AND INFORMATION ON THEIR PERFORMANCE

During the Reporting Period, the Bank had no significant contracts.

10 AUDIT REVIEW

The financial statements for 2016 prepared by the Bank according to the IFRSs has been audited by KPMG, Certified Public Accountants, and the auditor's reports were unqualified. The 2016 Annual Report of the Bank has been reviewed by the Audit Committee of the Board and the Board of Directors of the Bank.

11 SHARE OPTION SCHEME AND ITS IMPLEMENTATION DURING THE REPORTING PERIOD

During the Reporting Period, the Bank had not implemented any share option scheme.

CHAPTER XI SIGNIFICANT EVENTS (Continued)

12 SIGNIFICANT ACQUISITION AND DISPOSAL OF ASSETS AND MERGERS OF BUSINESSES

12.1 Acquisition of part of equity interests of Xinzheng Jingu County Bank Co., Ltd. (新鄭金穀村鎮銀行股份有限公司)

Xinzheng Jingu County Bank Co., Ltd. (新鄭金穀村鎮銀行股份有限公司) (“**Xinzheng County Bank**”) was established on July 20, 2010 by Inner Mongolia Hohhot Jingu Rural Commercial Bank Limited Company (內蒙古呼和浩特金穀農村商業銀行股份有限公司) (“**Jingu Rural Commercial Bank**”) with a registered capital of RMB36 million.

In August 2016, the Bank entered into the Letter of Intent relating to share equity transfer with Jingu Rural Commercial Bank and Xinzheng County Bank, pursuant to which the Bank shall acquire 20% of Xinzheng County Bank in total, representing 7.2 million shares, at the price of RMB2.00 per share. This acquisition has been completed and the approval of Administration for Industry and Commerce of the PRC has been obtained to change the name of Xinzheng County Bank to Xinzheng Zhengyin County Bank Co., Ltd. (新鄭鄭銀村鎮銀行股份有限公司).

12.2 Acquisition of part of equity interests of Xinmi Zhengyin County Bank Co., Ltd. (新密鄭銀村鎮銀行股份有限公司)

Xinmi Zhengyin County Bank Co., Ltd. (新密鄭銀村鎮銀行股份有限公司) (“**Xinmi County Bank**”) was established on January 28, 2011, with a registered capital of RMB100 million. The Bank as a sponsor contributed RMB20 million, holding 20% shares. Pursuant to 2015 annual audit report of Xinmi County Bank, as of December 31, 2015, net asset per share of Xinmi County Bank was RMB1.23.

In November 2016, the Bank entered into agreements with Zhengzhou Zhongxing Industry Co., Ltd. (鄭州中興實業集團有限公司), Wang Zhen (王珍), Wang Ge (王歌), Wei Hong (魏紅), Chen Yahui (陳亞輝), Li Rongli (李榮麗), Wang Luping (王魯平) and Zhang Yuling (張玉玲), respectively and intended to acquire 31.5% of Xinmi County Bank, representing 31.5 million shares in total, held by them at the price of RMB1.1 per share. Upon completion of share equity transfer, the shareholding percentage of the Bank in Xinmi County Bank will be 51.5%.

13 PROFIT ALLOCATION DURING THE REPORTING PERIOD

At the 2015 Annual General Meeting of the Bank held on June 17, 2016, the Bank considered and approved the 2015 profit distribution plan. Cash dividend of RMB1,064 million (tax inclusive) or RMB2.00 per 10 Share (tax inclusive) was declared to all Shareholders of the Bank. Dividend for 2015 of the Bank was distributed at July 15, 2016.

CHAPTER XII INTERNAL CONTROL AND INTERNAL AUDIT

1 INTERNAL CONTROL

Adhering to the principle of full coverage, checks and balances, prudence and compatibility, the Bank had established an internal control system covering the elements of internal control environment, risk assessment, internal control activities, information and communication, and internal supervision according to laws and regulations including the Company Law of the People's Republic of China, Commercial Bank Law of the People's Republic of China, Basic Norms of Corporate Internal Control and the Guidelines on Internal Control of Commercial Banks. The general objective of our internal control system is to establish and improve the corporate governance structure and internal organisation to meet prevailing requirements of the enterprise system and develop scientific mechanism for decision making, implementation and supervision, with an aim to ensure that the Bank's operation and management objectives can be realised; to establish effective risk control system and enhance risk management so that the Bank can operate in a sound manner; and to create a healthy internal operation environment that helps us to prevent, identify and correct error and frauds in a timely manner, so as to protect the safety and integrity of the Bank's assets as well as the legal interest of our investors.

We developed a system of three levels, namely by-laws/basic system, administrative measures and practices/plans/rules, that suits our business characteristics in accordance with the Guidelines on Internal Control of Commercial Banks; we set up detailed internal control systems for our business that generally cover all business and management activities including credit business, intermediary business, financial institution, asset management, retail business, operation, e-banking, trade financing, security and safety, human resources, risk management and internal audit, etc. based on the objective, principle and basic requirements of internal control. We constantly adjust and optimise our systems and work flows. During the Reporting Period, we made 68 new supplements and 79 new amendments to our internal control system.

We put emphasis on internal control culture development and spare no effort in creating a sound internal control environment that features with honesty and compliance. The Bank continued to enrich and improve various risk management systems and internal control measures, strengthen overall and ad-hoc risk management, enhance the identification, measurement, control and monitoring of various types of risks (credit risk, market risk, liquidity risk, operational risk and IT risk etc.), attach importance to internal control of credit business, finance and accounting, capital business, intermediary business and connected transactions, improve the scientific and forward-looking management of various types of risks to guarantee the stable operation of management work.

We value the information system and actively facilitate the informatization construction as it is important to the improvement of operation efficiency and the effectiveness of risk management. We established and optimised relevant policies and procedures, specifying work flows in respect of information system R&D, system installation, operation and maintenance, emergency handling, system flow and user authorisation management to prevent IT risk. In addition, we not only keep improving our information communication and reporting system, but also set up specific requirements for information communication, reporting responsibility and procedures and have established a complete information reporting and communication system, to ensure effective information communication within the Bank as well as between the Bank and other parties.

CHAPTER XII INTERNAL CONTROL AND INTERNAL AUDIT (Continued)

The Bank have established a comprehensive internal control assessment system. In effectively segregating duties, the Board, the Supervision Committee and senior management assess the operation and management activities of each level and business line based on their functions: Audit Committee of the Board of Directors instructs the internal audit office to conduct risk-oriented internal audit regularly, enhance audit supervision and assess the internal control based on the result of internal audit; the Supervision Committee keeps improving the supervision mechanism, functions as a special committee and procures the Board and the Management of the Bank to fulfil their internal control responsibilities; the compliance department, risk management department and management departments of each business line supervise the internal control and compliance by daily inspections and ad-hoc inspections, give risk warnings and facilitate the improvement of internal control measures.

During the Reporting Period, we were not aware of significant deficiencies in the design or implementation of the internal control and risk management system. The Bank will further optimise its internal control and risk management system and internal control system, enrich risk management techniques, strengthen the implementation of internal control measures and intensify internal inspections and supervision based on the external environment, its operation, scale, business development and management requirement, to improve its core competitiveness and ensure its sound and sustainable development.

2 INTERNAL AUDIT

In accordance with the requirements of the Guidelines on Internal Audit for Banking Financial Institutions and Guidelines on Internal Control of Commercial Banks, the Bank established an independent and vertical internal audit management system. As an executive body of the internal audit of the Bank, the internal audit office of the Board of Directors works under the specific guidance of the Audit Committee of the Board of Directors. In accordance with regulatory requirements and relevant system requirements, the internal audit office conscientiously performs its duties, regularly reports to the Board of Directors and the Board of Supervisors on the progress of the audit work, and timely submits audit reports and informs senior management.

Adhering to the principle of independence, objectivity and significance, the internal audit department of the Bank established overall planning of internal audit and annual work plan of the Bank, made arrangements for and implemented the audit of various business activities, operations and financial obligations of key staff members of the Bank during their tenure of service; inspected and evaluated the implementation of laws, regulations and rules, and suggested improvements to the management.

During the Reporting Period, the internal audit department of the Bank adhered to the principle of risk-oriented auditing, took the initiative in innovating its work, improved the auditing approach for upgrading the standards and quality of its work, continued to expand audit coverage, efficiently implemented audit work, objectively reflected the business and management of the Bank, and effectively facilitated the improvement of internal control and management mechanism and system of the Bank.

CHAPTER XIII INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of Bank of Zhengzhou Co., Ltd.

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

OPINION

We have audited the consolidated financial statements of Bank of Zhengzhou Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") set out on page 133 to 250, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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 HKICPA's Code of Ethics for Professional Accountants (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 judgement, 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.

Impairment of loans and receivables	
Refer to note 19 and 20(3) to the consolidated financial statements and the accounting policies on pages 149–152.	
The Key Audit Matter	How the matter was addressed in our audit
Loans and receivables include both loans and advances to customers and financial investments classified as loans and receivables. Impairment of loans and receivables is a subjective area due to the level of judgement applied by management in determining provisions.	Our audit procedures to assess impairment of loans and receivables included the following: <ul style="list-style-type: none">assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording and monitoring of loans and receivables, the credit grading process and the measurement of individual provisions for impairment losses;

CHAPTER XIII INDEPENDENT AUDITOR'S REPORT (Continued)

Impairment of loans and receivables	
Refer to note 19 and 20(3) to the consolidated financial statements and the accounting policies on pages 149–152.	
The Key Audit Matter	How the matter was addressed in our audit
<p>From the Group's perspective, the portfolios which gave rise to the greatest uncertainty in determining provision for impairment losses were those where impairments were derived from collective assessment models, where the loans and receivables were unsecured or where the loans and receivables were subject to potential collateral shortfalls.</p> <p>The determination of the collective provision for impairment losses is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The Group's collective provisions for impairment losses are derived from estimates including the Group's historical losses for loans and receivables, the loss emergence period (i.e. the time lapse between the occurrence of the event causing eventual default to the actual recording of a loss) and other adjustment factors.</p> <p>Individual provisions for impairment losses are estimated by management once objective evidence of impairment becomes apparent. Management exercises judgement in determining the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors.</p> <p>Whilst the Group performs valuations of property and other illiquid collateral, enforceability, timing and means of realisation also affect the ultimate collectability and thereby the amount of impairment allowances as at the reporting date.</p> <p>We identified impairment of loans and receivables as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.</p>	<ul style="list-style-type: none"> comparing the total balance of the loan grading report used by management to assess the allowances for impairment with the general ledger and comparing individual loan information, on a sample basis, with the underlying loan agreements and other related documentation to assess the presentation of the information in the loan grading report; evaluating the validity of the models used and assumptions adopted in the Group's calculation of the collective provisions for impairment losses by critically assessing input parameters involving subjective judgement, seeking collaborative evidence from external sources and comparing the historical losses against the Group's other internal records and our prior year records. As part of these procedures, we challenged the Group's revisions to estimates and input parameters, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses. We compared the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the accounts to impaired loans and receivables. Having considered the above, we performed a re-calculation to assess the amount of collective provisions for impairment losses; assessing individual provisions for impairment losses by selecting a risk-based sample for credit review. We analysed the loan portfolio by industry sector to select samples for credit review in industries more vulnerable to the current economic situation with reference to borrowers with adverse financial press coverage. We also selected samples based on other risk criteria and from the Group's watch list and overdue report. We selected further samples for credit review from loans and receivables classified as non-performing. We assessed the compilation of the overdue report and other key data maintained in the information technology systems by comparing the details of a sample of loans and advances with the underlying loan documentation; and performing credit review procedures for the sample of loans and receivables selected as mentioned above, which included making enquiries of the credit managers about the customers' business operations, reviewing customers' financial information, researching market information about customers' businesses and evaluating management's assessment of the value of any collateral held, assessing the forecast cash flows for impaired loans and receivables, challenging the viability of the Group's recovery plans, comparing management's valuation of collateral to market prices, evaluating the timing and means of realisation of collateral and considering other sources of repayment asserted by management.

CHAPTER XIII INDEPENDENT AUDITOR'S REPORT (Continued)

Consolidation of structured entities	
Refer to note 42 to the consolidated financial statements and the accounting policies on page 167.	
The Key Audit Matter	How the matter was addressed in our audit
<p>Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to a structured entity through issuing a wealth management product, or act as an investor to a structured entity through investing in an asset management plan, a trust plan or an asset-backed security.</p> <p>In determining whether a structured entity is required to be consolidated by the Group, management is required to consider the power the Group is able to exercise over the activities of the entity and the Group's exposure to and ability to influence its own returns from the entity. In certain circumstances the Group may be required to consolidate a structured entity even though it has no equity interest therein.</p> <p>As at 31 December 2016, the carrying amount of the Group's non-equity interests in structured entities sponsored by third party institutions which were not consolidated by the Group was RMB111,073 million whilst, the amounts of assets held by structured entities sponsored by the Group which the Group did not consolidate but in which it held a non-equity interest was RMB43,209 million.</p> <p>We identified the consolidation of structured entities as a key audit matter because it involves significant management judgement to determine whether a structured entity is required to be consolidated by the Group or not and because the impact of consolidating a structured entity on the consolidated statement of financial position and relevant regulatory capital requirements could be significant.</p>	<p>Our audit procedures to assess the consolidation of structured entities included the following:</p> <ul style="list-style-type: none"> making enquiries of management and inspecting documents relating to the judgement process over whether a structured entity is consolidated or not to assess whether the Group has a robust process in this regard; selecting significant structured entities of each key product type and performing the following procedures for each entity selected: <ul style="list-style-type: none"> inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity; reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity; reviewing management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity; assessing management's judgement over whether the structured entity should be consolidated or not; assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

CHAPTER XIII INDEPENDENT AUDITOR'S REPORT (Continued)

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises all 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 are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors 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. This 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 HKSAAs 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 HKSAAs, we exercise professional judgement and maintain professional scepticism 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.
- 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.

CHAPTER XIII INDEPENDENT AUDITOR'S REPORT (Continued)

- 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 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 Tat Ming.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

March 25, 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2016	2015
Interest income		15,057,410	12,664,502
Interest expense		(6,757,417)	(5,757,990)
Net interest income	3	8,299,993	6,906,512
Fee and commission income		1,259,800	745,638
Fee and commission expense		(45,359)	(32,242)
Net fee and commission income	4	1,214,441	713,396
Net trading gains	5	79,267	127,261
Net gains arising from investments	6	207,995	26,622
Other operating income	7	178,790	87,460
Operating income		9,980,486	7,861,251
Operating expenses	8	(2,434,524)	(2,252,760)
Impairment losses on assets	11	(2,346,372)	(1,297,526)
Operating profit		5,199,590	4,310,965
Share of profits of associates	22(2)	57,443	50,777
Profit before taxation		5,257,033	4,361,742
Income tax expense	12	(1,212,447)	(1,006,072)
Profit for the year		4,044,586	3,355,670
Net profit attributable to:			
Equity shareholders of the Bank		3,998,768	3,356,371
Non-controlling interests		45,818	(701)
		4,044,586	3,355,670

The notes on pages 142 to 250 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2016	2015
Profit for the year		4,044,586	3,355,670
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
– Available-for-sale financial assets:			
net movement in the fair value reserve	34(4)	(7,564)	7,969
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability	34(5)	3,080	(27,767)
Other comprehensive income net of tax		(4,484)	(19,798)
Total comprehensive income		4,040,102	3,335,872
Total comprehensive income attributable to:			
Equity shareholders of the Bank		3,994,284	3,336,573
Non-controlling interests		45,818	(701)
		4,040,102	3,335,872
Basic and diluted earnings per share (<i>in RMB</i>)	13	0.75	0.85

The notes on pages 142 to 250 form part of these financial statements.

Consolidated Statement of Financial Position

As at December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	December 31, 2016	December 31, 2015
Assets			
Cash and deposits with central bank	14	42,586,362	33,008,307
Deposits with banks and other financial institutions	15	1,414,928	7,679,078
Placements with banks and other financial institutions	16	11,758,215	5,519,560
Financial assets at fair value through profit or loss	17	8,946,097	13,001,517
Financial assets held under resale agreements	18	5,119,568	9,716,305
Loans and advances to customers	19	107,633,407	91,604,436
Financial investments:			
Available-for-sale financial assets	20	6,301,789	11,206,015
Held-to-maturity investments	20	49,671,048	23,901,914
Loans and receivables	20	118,224,916	65,105,660
Financial lease receivables	21	5,721,061	—
Interest in associates	22	255,195	195,625
Property and equipment	23	1,698,990	1,604,561
Deferred tax assets	24	969,658	589,143
Other assets	25	5,846,738	2,490,968
Total assets		366,147,972	265,623,089
Liabilities			
Due to central bank	26	77,000	—
Deposits from banks and other financial institutions	27	25,808,253	21,453,178
Placements from banks and other financial institutions	28	19,105,611	5,820,236
Financial assets sold under repurchase agreements	29	33,251,370	19,602,600
Deposits from customers	30	216,389,640	169,195,471
Tax payable		589,674	505,816
Debt securities issued	31	44,660,446	27,039,068
Other liabilities	32	4,404,603	4,182,701
Total liabilities		344,286,597	247,799,070

The notes on pages 142 to 250 form part of these financial statements.

Consolidated Statement of Financial Position (Continued)

As at December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	December 31, 2016	December 31, 2015
Equity			
Share capital	33	5,321,932	5,141,932
Capital reserve	34	3,054,204	2,662,564
Surplus reserve	34	1,632,893	1,237,793
General reserve	34	4,527,789	3,163,200
Fair value reserve	34	2,841	10,405
Remeasurement of net defined benefit liability	34	(52,259)	(55,339)
Retained earnings	35	6,808,978	5,634,285
Total equity attributable to equity shareholders of the Bank		21,296,378	17,794,840
Non-controlling interests		564,997	29,179
Total equity		21,861,375	17,824,019
Total liabilities and equity		366,147,972	265,623,089

Approved and authorised for issue by the board of directors on March 25, 2017.

Wang Tianyu

Chairman of the Board of Directors
Executive Director

Shen Xueqing

President
Executive Director

Mao Yuezhen

Chief accountant

Li Guoquan

General Manager of the Planning
and Finance Department

The notes on pages 142 to 250 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank									Total equity
		Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Sub-total	Non-controlling interests	
Balance at January 1, 2016		5,141,932	2,662,564	1,237,793	3,163,200	10,405	(55,339)	5,634,285	17,794,840	29,179	17,824,019
Profit for the year		-	-	-	-	-	-	3,998,768	3,998,768	45,818	4,044,586
Other comprehensive income	34(4)(5)	-	-	-	-	(7,564)	3,080	-	(4,484)	-	(4,484)
Total comprehensive income		-	-	-	-	(7,564)	3,080	3,998,768	3,994,284	45,818	4,040,102
Changes in share capital											
- Issue of H-shares	33/34	180,000	392,422	-	-	-	-	-	572,422	-	572,422
- Non-controlling interests from the establishment of subsidiary		-	-	-	-	-	-	-	-	490,000	490,000
- Others		-	(782)	-	-	-	-	-	(782)	-	(782)
Sub-total		180,000	391,640	-	-	-	-	-	571,640	490,000	1,061,640
Appropriation of profit:											
- Appropriation to surplus reserve	34(2)	-	-	395,100	-	-	-	(395,100)	-	-	-
- Appropriation to general reserve	34(3)	-	-	-	1,364,589	-	-	(1,364,589)	-	-	-
- Cash dividends	35	-	-	-	-	-	-	(1,064,386)	(1,064,386)	-	(1,064,386)
Sub-total		-	-	395,100	1,364,589	-	-	(2,824,075)	(1,064,386)	-	(1,064,386)
Balance at December 31, 2016		5,321,932	3,054,204	1,632,893	4,527,789	2,841	(52,259)	6,808,978	21,296,378	564,997	21,861,375

The notes on pages 142 to 250 form part of these financial statements.

Consolidated Statement of Changes in Equity (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank								Non-controlling interests	Total equity
		Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Sub-total		
Balance at January 1, 2015		3,941,932	100,327	902,085	2,313,200	2,436	(27,572)	4,173,170	11,405,578	–	11,405,578
Profit for the year		–	–	–	–	–	–	3,356,371	3,356,371	(701)	3,355,670
Other comprehensive income	34(4)(5)	–	–	–	–	7,969	(27,767)	–	(19,798)	–	(19,798)
Total comprehensive income		–	–	–	–	7,969	(27,767)	3,356,371	3,336,573	(701)	3,335,872
Changes in share capital											
– Issue of H-shares	33/34	1,200,000	2,562,237	–	–	–	–	–	3,762,237	–	3,762,237
– Non-controlling interests from the establishment of subsidiary		–	–	–	–	–	–	–	–	29,880	29,880
Sub-total		1,200,000	2,562,237	–	–	–	–	–	3,762,237	29,880	3,792,117
Appropriation of profit:											
– Appropriation to surplus reserve	34(2)	–	–	335,708	–	–	–	(335,708)	–	–	–
– Appropriation to general reserve	34(3)	–	–	–	850,000	–	–	(850,000)	–	–	–
– Cash dividends	35	–	–	–	–	–	–	(709,548)	(709,548)	–	(709,548)
Sub-total		–	–	335,708	850,000	–	–	(1,895,256)	(709,548)	–	(709,548)
Balance at December 31, 2015		5,141,932	2,662,564	1,237,793	3,163,200	10,405	(55,339)	5,634,285	17,794,840	29,179	17,824,019

The notes on pages 142 to 250 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	2016	2015
Cash flows from operating activities		
Profit before tax	5,257,033	4,361,742
<i>Adjustments for:</i>		
Impairment losses on assets	2,346,372	1,297,526
Depreciation and amortisation	212,689	157,282
Unwinding of discount	(49,375)	(41,776)
Unrealised foreign exchange gains	(190,082)	(19,060)
Net gains on disposal of long-term assets	(24,456)	(39,859)
Net trading losses/(gains) of financial assets at fair value through profit or loss	44,880	(28,544)
Net gains arising from investments	(207,995)	(26,622)
Share of profits of associates	(57,443)	(50,777)
Interest expense on debt securities issued	1,274,587	747,662
Interest income on financial investments	(7,397,630)	(5,022,145)
Other non-cash items	(5,527)	–
	1,203,053	1,335,429
<i>Changes in operating assets</i>		
Net increase in deposits with central bank	(3,710,588)	(157,884)
Net increase in deposits and placements with banks and other financial institutions	(4,233,434)	(5,934,188)
Net decrease/(increase) in financial assets at fair value through profit or loss	4,010,540	(2,005,606)
Net increase in loans and advances to customers	(17,821,042)	(16,292,969)
Net decrease/(increase) in financial assets held under resale agreements	4,596,737	(3,140,782)
Net increase in finance lease receivables	(8,017,868)	–
Net increase in other operating assets	(29,008)	(429,556)
	(25,204,663)	(27,960,985)

The notes on pages 142 to 250 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

	2016	2015
<i>Changes in operating liabilities</i>		
Net increase in amounts due to central bank	77,000	—
Net increase/(decrease) in deposits and placements from banks and other financial institutions	17,640,450	(5,916,994)
Net increase in financial assets sold under repurchase agreements	13,648,770	3,820,000
Net increase in deposits from customers	47,194,169	36,634,096
Income tax paid	(1,405,307)	(1,026,673)
Net increase in other operating liabilities	882,922	835,289
	78,038,004	34,345,718
Net cash flows generated from operating activities	54,036,394	7,720,162
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	210,434,494	120,048,741
Payments on acquisition of associates	(14,400)	—
Proceeds from disposal of property and equipment and other assets	37,985	52,802
Payments on acquisition of investments	(284,587,504)	(148,459,603)
Dividends and interest received	6,674,064	4,573,383
Payments on acquisition of property and equipment and other assets	(896,543)	(763,939)
Net cash flows used in investing activities	(68,351,904)	(24,548,616)
Cash flows from financing activities		
Proceeds received from issuance of H-shares	572,422	3,762,237
Capital contribution by non-controlling interests	490,000	29,880
Proceeds received from debt securities issued	60,927,564	27,571,775
Repayment of debt securities issued	(43,486,400)	(9,194,242)
Interest paid on debt securities issued	(1,162,156)	(589,961)
Dividends paid	(1,067,537)	(715,877)
Others	(385,727)	385,726
Net cash flows generated from financing activities	15,888,166	21,249,538
Net increase in cash and cash equivalents	1,572,656	4,421,084

The notes on pages 142 to 250 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2016	2015
Cash and cash equivalents as at January 1		14,514,260	10,089,462
Effect of foreign exchange rate changes on cash and cash equivalents		35,883	3,714
Cash and cash equivalents as at December 31	36	16,122,799	14,514,260
Net cash flows generated from operating activities include:			
Interest received		7,699,784	7,440,807
Interest paid		(4,862,362)	(4,301,496)

The notes on pages 142 to 250 form part of these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

Bank of Zhengzhou Co., Ltd., formerly known as City Commercial Bank of Zhengzhou Co., Ltd., is a joint-stock commercial bank established with the approval of the People's Bank of China (the "PBOC") in accordance with the notice of JiyinFu [2000] No. 64. The Bank changed its name to Bank of Zhengzhou Co., Ltd. in October 2009. The registered address is No. 22 Business Waihuan Road, Zhengdong New District, Zhengzhou City, Henan Province. The Bank operates in Henan Province of the PRC.

The Bank obtained its financial institution license No. B1036H241010001 from the China Banking Regulatory Commission (the "CBRC"), and obtained its business license No. 410000100052554 from the State Administration for Industry and Commerce of the People's Republic of China (the "PRC"). The Bank is regulated by the CBRC authorized by the State Council.

In December 2015, the Bank's H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 06196).

The principal activities of the Bank and its subsidiaries (collectively the "Group") includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting bills; issuing financial bonds; acting as the issuing agent, cashing agent and the underwriting of government bonds; trading government bonds; engaging in interbank borrowings; financial leasing; offering guarantees; providing safe-deposit box service; collecting and making payments as agent and acting as insurance agent; accepting entrusted loans and other businesses approved by the banking regulatory authorities under the State Council.

For subsidiaries of the Bank, refer to Note 22 for more information.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual IFRSs, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(2) Basis of preparation

The consolidated financial statements for the year ended 31 December 2016 comprise the Bank and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgement about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2(24).

The measurement basis used in the preparation of the financial statements is the historical basis, except that the financial instruments classified as available-for-sale or at fair value through profit or loss (see Note 2(7)) are stated at their fair value as explained in the accounting policies.

The financial statements are presented in RMB, rounded to the nearest thousand, which is the functional currency of the Group.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(3) Change in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these development have had a material effect on how the Group's result and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(4) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the Bank's statements of financial position, investments in subsidiaries are stated at cost less provision for impairment losses.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at 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 ruling at the transaction dates.

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end year. The resulting exchange differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates ruling at the dates the fair value is determined; the exchange differences are recognised in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognised in fair value reserve.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(7) Financial instruments

(i) *Recognition and measurement of financial assets and liabilities*

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Financial instruments (continued)

(i) *Recognition and measurement of financial assets and liabilities (continued)*

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorised as follows:

- **Financial assets and financial liabilities at fair value through profit or loss**

A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, it is managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein are recognised in profit or loss.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Financial instruments (continued)

(i) Recognition and measurement of financial assets and liabilities (continued)

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than

- (a) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (b) those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are stated at amortised cost using the effective interest method.

- Loans and receivables

Loans and receivables are non-derivative financial assets held by the Group with fixed or determinable recoverable amounts that are not quoted in an active market, other than

- (a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;
- (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Subsequent to initial recognition, loans and receivables are stated at amortised cost using the effective interest method.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Financial instruments (continued)

(i) *Recognition and measurement of financial assets and liabilities (continued)*

- Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any of the above categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, are recognised directly in other comprehensive income. Investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statements of financial position at cost less impairment losses. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is reclassified to profit or loss.

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Financial instruments (continued)

(ii) *Impairment of financial assets*

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end year to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is recognised in profit or loss. Objective evidence of impairment in a 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;
 - disappearance of an active market for financial assets because of significant financial difficulties;
 - significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
 - a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- **Loans and receivables**

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognised in profit or loss.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Financial instruments (continued)

(ii) *Impairment of financial assets (continued)*

- Loans and receivables (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 and receivables not considered individually significant

For homogeneous groups of loans and receivables that are not considered individually significant, the Group adopts a flow rate methodology to collectively assess impairment losses. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and 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 receivables that were impaired at the end year but which will not be individually identified as such until some time in the future.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Financial instruments (continued)

(ii) *Impairment of financial assets (continued)*

- Loans and receivables (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 or receivable has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan or receivable 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.

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. 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.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

- Held-to-maturity investments

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

- Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost net of any principal repayment and amortisation and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, after an impairment loss has been recognised on available-for-sale debt instruments, the fair value of the assets increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an equity instrument classified as available-for-sale is not reversed through profit or loss but recognised directly in other comprehensive income.

For investments in equity instruments carried at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset, and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Impairment losses for equity instruments carried at cost are not reversed.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Financial instruments (continued)

(iii) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Group takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date, and uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

(iv) Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities sale and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Financial instruments (continued)

(v) *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(8) Financial assets held under resale and sold under 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 resale 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.

(9) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements of the Group under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(14)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Group. The Group's interest in associate is included in the consolidated financial statements from the date that significant influence commences until the date that significant influence ends.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Associates (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(7)).

(10) Property and equipment

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(14)). Construction in progress ("CIP") is stated in the statements of financial position at cost less impairment loss (Note 2(14)).

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns, each part is depreciated separately.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(10) Property and equipment (continued)

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values rate and depreciation rates of each class of property and equipment are as follows:

	Estimated useful lives	Estimated net residual value rate	Depreciation rate
Premises	20–50 years	5%	1.90%–4.75%
Electronic equipment	5 years	5%	19.00%
Vehicles	5 years	5%	19.00%
Office equipment and others	5–10 years	5%	9.50%–19.00%

(11) Lease

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Lease payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent lease payments are recognised as expenses in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(iii) Finance leases

When the Group is a lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the statement of financial position as loans and advances to customers. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(12) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortisation and impairment losses (Note 2(14)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the estimated useful lives.

The respective amortisation periods for intangible assets are as follows:

Land use rights	30–50 years
Softwares	5–10 years

(13) Repossessed assets

Reposessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying amount and net recoverable amount. If the recoverable amount is lower than the carrying value of the reposessed assets, the assets are written down to the recoverable amount.

(14) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of year based on the internal and external sources of information to determine whether there is any indication of impairment:

- property and equipment
- pre-paid interest in leasehold land classified as being held under an operating lease
- intangible assets
- investment in subsidiaries and associates

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A Cash-Generating Unit (the “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.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(14) Provision for impairment losses on non-financial assets (continued)

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called “asset”) is the greater of its fair value less costs of disposal and value in use. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

An asset’s fair value less costs of disposal is the amount determined by the price of a sale agreement in an arm’s length transaction, less the costs that are directly attributable to the disposal of the asset. The value in use 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 current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated to reduce the carrying amount of the assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs of disposal (if measurable), value in use (if measurable) and zero.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(15) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of the Group include the social pension schemes and an annuity plan.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(15) Employee benefits (continued)

(i) **Short term employee benefits and contributions to defined contribution retirement plans (continued)**

Social pension schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Annuity plan

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' total salaries and bonuses, which are charged to profit or loss when the contributions are made.

Housing fund and other social insurances

In addition to the retirement benefits above, the Group has joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

(ii) **Supplementary retirement benefits**

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the projected unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(15) Employee benefits (continued)

(ii) *Supplementary retirement benefits (continued)*

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees. The Group's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that the Group is committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the projected unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits".

(16) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items that are recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable calculated at the applicable tax rate on the taxable income for the period, and any adjustment to tax payable in respect of previous years.

At the end of year, current tax assets and liabilities are offset if the taxable entity has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be used.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss).

At the end of year, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(16) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at the end of year. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the end of year, deferred tax assets and liabilities are offset if all the following conditions are met:

- the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- they relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities, simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(17) Financial guarantees issued, provisions and contingent liabilities

(i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (the “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 in accordance with Note 2(17)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(ii) *Other provisions and contingent liabilities*

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(17) Financial guarantees issued, provisions and contingent liabilities (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(18) Fiduciary activities

The Group acts in fiduciary activities 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 (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "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.

(19) 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:

(i) *Interest income*

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the year. 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.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(19) Income recognition (continued)

(i) *Interest income (continued)*

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.

(ii) *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.

(iii) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(iv) *Other income*

Other income is recognised on an accrual basis.

(20) Expenses recognition

(i) *Interest expenses*

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) *Other expenses*

Other expenses are recognised on an accrual basis.

(21) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the end of year are not recognised as a liability at the end of year but disclosed separately in the notes to the financial statements.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(22) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a);
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(23) 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. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services, the type or class of customers, the methods used to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated as "other segment" if they share a majority of these criteria.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(24) Significant accounting estimates and judgements

(i) *Provision for impairment losses on loans and advances to customers and financial investments (available-for-sale financial assets, held-to-maturity investments and financial investments classified as loans and receivables)*

The Group reviews portfolios of loans and advances to customers and financial investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for loans and advances to customers and financial investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans and advances to customers, and debt investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the 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.

The objective evidence of impairment for an available-for-sale equity investment includes significant or prolonged decline in its fair value below its cost. When deciding whether there is significant or prolonged decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

(ii) *Fair value of financial instruments*

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(24) Significant accounting estimates and judgements (continued)

(iii) Classification of 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.

(iv) 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 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.

(v) 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 discount 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.

(vi) Depreciation and amortisation

Property and equipment 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 this year. The estimated useful lives are determined based on historical experiences of similar assets and 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.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(24) Significant accounting estimates and judgements (continued)

(vii) Determination of control over investees

Management applies its judgement to determine whether the Group is acting as agent or principal in relation to the structured entities in which the Group acts as an asset manager. In accessing whether the Group is acting as agent, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns.

3 NET INTEREST INCOME

	2016	2015
Interest income arising from		
Deposits with central bank	417,000	397,413
Deposits and placements with banks and other financial institutions	299,960	167,224
Loans and advances to customers		
– Corporate loans and advances	4,560,841	4,281,111
– Personal loans and advances	1,398,325	1,638,629
– Discounted bills	216,540	243,148
Financial assets held under resale agreements	222,204	173,454
Financial investments	7,822,163	5,763,523
Financial lease receivables	120,377	–
Sub-total	15,057,410	12,664,502
Interest expense arising from		
Amounts due to central bank	(554)	–
Deposits and placements from banks and other financial institutions	(1,360,860)	(1,500,215)
Deposits from customers	(3,589,758)	(3,196,241)
Financial assets sold under repurchase agreements	(531,658)	(313,872)
Debt securities issued	(1,274,587)	(747,662)
Sub-total	(6,757,417)	(5,757,990)
Net interest income	8,299,993	6,906,512
Of which:		
Interest income arising from impaired financial assets identified	49,375	41,776

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME (continued)

- (1) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on deposits from customers and debt securities issued.
- (2) Total interest income arising from financial assets that are not at fair value through profit or loss for the year ended December 31, 2016 amounted to RMB14,633 million (2015: RMB11,923 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the year ended December 31, 2016 amounted to RMB6,757 million (2015: RMB5,758 million).

4 NET FEE AND COMMISSION INCOME

	2016	2015
Fee and commission income		
Agency and custody services fees	539,701	332,242
Underwriting and advisory fees	374,214	194,525
Acceptance and guarantee services fees	116,631	136,361
Bank card services fees	49,457	32,815
Others	179,797	49,695
Sub-total	1,259,800	745,638
Fee and commission expense	(45,359)	(32,242)
Net fee and commission income	1,214,441	713,396

5 NET TRADING GAINS

	Note	2016	2015
Net (losses)/gains from debt securities	(i)	(95,104)	106,390
Net foreign exchange gains	(ii)	174,371	20,871
Total		79,267	127,261

- (i) Net (losses)/gains from debt securities include gains/(losses) arising from the buying and selling of, and changes in the fair value of financial assets held for trading.
- (ii) Net foreign exchange gains mainly included gains from purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into Renminbi.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

6 NET GAINS ARISING FROM INVESTMENTS

	2016	2015
Net gains from financial investments	207,995	26,622
Total	207,995	26,622

7 OTHER OPERATING INCOME

	2016	2015
Rental income	12,067	11,534
Government grants	108,210	28,336
Net gains on disposal of property and equipment	24,456	39,859
Others	34,057	7,731
Total	178,790	87,460

8 OPERATING EXPENSES

	Note	2016	2015
Staff costs			
– Salaries, bonuses and allowance		800,532	613,984
– Social insurance and annuity		161,123	129,563
– Supplementary retirement benefits		7,315	7,108
– Staff welfare		144,687	115,028
– Housing allowance		47,085	37,789
– Others		33,119	46,004
Sub-total		1,193,861	949,476
Depreciation and amortisation		212,689	157,282
Rental and property management expenses		176,053	145,450
Office expenses		77,423	77,622
Tax and surcharges		212,439	423,776
Other general and administrative expenses	(1)	562,059	499,154
Total		2,434,524	2,252,760

(1) Auditor's remunerations were RMB3.50 million for the year ended December 31, 2016 (2015: RMB2.20 million).

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

		Year ended December 31, 2016						
					Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
Name	Note	Fees	Salaries	Discretionary bonus				
Executive directors								
Wang Tianyu		-	917	1,834	235	2,986	917	2,069
Shen Xueqing		-	871	1,742	211	2,824	871	1,953
Feng Tao	(2)	-	481	963	37	1,481	481	1,000
Non-executive directors								
Fan Yutao		-	-	-	-	-	-	-
Ma Jinwei		36	-	-	-	36	-	36
Zhang Jingguo		36	-	-	-	36	-	36
Liang Songwei		-	-	-	-	-	-	-
Ji Hongjun		36	-	-	-	36	-	36
Yu Zhanglin	(2)	-	-	-	-	-	-	-
Independent non-executive directors								
Wang Shihao		180	-	-	-	180	-	180
Li Huaizhen		180	-	-	-	180	-	180
Xie Taifeng		180	-	-	-	180	-	180
Wu Ge		180	-	-	-	180	-	180
Chan Mei Bo, Mabel		180	-	-	-	180	-	180
Supervisors								
Zhao Lijuan	(2)	-	806	1,605	208	2,619	802	1,817
Tang Yunwei		150	-	-	-	150	-	150
Liu Yuhui		150	-	-	-	150	-	150
Meng Jun		36	-	-	-	36	-	36
Duan Ping		-	174	397	104	675	-	675
Zhang Chungue		-	102	539	102	743	-	743
Xu Changsheng	(2)	80	-	-	-	80	-	80
Zhu Zhihui		36	-	-	-	36	-	36
Cui Huarui		-	163	942	180	1,285	-	1,285
Former Executive director								
Zhang Rongshun	(2)	-	825	1,651	218	2,694	825	1,869
Former Non-executive director								
Ma Lei	(2)	-	-	-	-	-	-	-
Xu Jianxin	(2)	11	-	-	-	11	-	11
Former Independent non-executive directors								
Fan Dalu	(2)	196	-	-	53	249	-	249
Zhang Shengping	(2)	70	-	-	-	70	-	70
Total		1,737	4,339	9,673	1,348	17,097	3,896	13,201

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

		Year ended December 31, 2015						
Name	Note	Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
Executive directors								
Wang Tianyu		–	893	1,468	219	2,580	877	1,703
Shen Xueqing		–	849	1,394	189	2,432	833	1,599
Zhang Rongshun		–	804	1,321	205	2,330	790	1,540
Non-executive directors								
Fan Yutao	(1)	–	–	–	–	–	–	–
Ma Jinwei	(1)	18	–	–	–	18	–	18
Xu Jianxin		33	–	–	–	33	–	33
Zhang Jingguo		33	–	–	–	33	–	33
Liang Songwei		–	–	–	–	–	–	–
Ji Hongjun		–	–	–	–	–	–	–
Ma Lei		9	–	–	–	9	–	9
Independent non-executive directors								
Wang Shihao		165	–	–	–	165	–	165
Li Huaizhen	(1)	90	–	–	–	90	–	90
Xie Taifeng	(1)	90	–	–	–	90	–	90
Wu Ge	(1)	90	–	–	–	90	–	90
Chan Mei Bo, Mabel	(1)	90	–	–	–	90	–	90
Supervisors								
Fan Dalu		–	804	1,321	202	2,327	790	1,537
Tang Yunwei		135	–	–	–	135	–	135
Liu Yuhui		135	–	–	–	135	–	135
Meng Jun		33	–	–	–	33	–	33
Duan Ping		–	168	321	94	583	–	583
Zhang Chungge		–	112	354	93	559	–	559
Zhang Shengping	(1)	75	–	–	–	75	–	75
Zhu Zhihui	(1)	18	–	–	–	18	–	18
Cui Huarui	(1)	–	518	915	130	1,563	–	1,563
Former Executive director								
Qiao Jun'an	(1)	–	–	–	–	–	–	–
Former Non-executive directors								
Liu Rui	(1)	–	–	–	–	–	–	–
Zhu Zhihui	(1)	15	–	–	–	15	–	15
Former Independent non-executive directors								
Wang Zhenmin	(1)	75	–	–	–	75	–	75
Wei Xin	(1)	75	–	–	–	75	–	75
Total		1,179	4,148	7,094	1,132	13,553	3,290	10,263

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
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9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

- (1) At the Bank's 2014 General Meeting held on June 18, 2015, Mr. Qiao Jun'an resigned as executive director of the Bank; Mr. Fan Yutao and Mr. Ma Jinwei were elected as non-executive directors of the Bank, and Mr. Liu Rui and Mr. Zhu Zhihui resigned as non-executive directors of the Bank; Mr. Li Huaizhen, Mr. Xie Taifeng, Mr. Wu Ge and Ms. Chan Mei Bo, Mabel were elected as independent non-executive directors of the Bank, and Mr. Wang Zhenmin and Mr. Wei Xin resigned as independent non-executive directors of the Bank; Mr. Zhang Shengping, Mr. Zhu Zhihui and Ms. Cui Huarui were elected as supervisors of the Bank.
- (2) At the Bank's 2015 General Meeting held on June 17, 2016, Mr. Zhang Rongshun resigned as executive director of the Bank, and Mr. Feng Tao were elected as executive directors of the Bank; Mr. Ma Lei and Mr. Xu Jianxin resigned as non-executive directors of the Bank, and Mr Yu Zhanglin was elected as non-executive director of the Bank; Ms. Zhao Lijuan and Mr Xu Changsheng were elected as supervisors of the Bank, and Mr. Fan Dalu and Mr. Zhang Shengping resigned as supervisors of the Bank.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with highest emoluments include 2 directors and 1 supervisor (2015: 3 directors and 1 supervisor) of the Group, whose emoluments are disclosed in Note 9. The emoluments for the other highest paid individual is as follows:

	2016	2015
Salaries and other emoluments	1,604	804
Discretionary bonuses	3,210	1,321
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	413	184
Total	5,227	2,309

The individual's emoluments before individual income tax is within the following bands:

	2016	2015
RMB2,000,001–2,500,000	–	1
RMB2,500,001–3,000,000	2	–
Total	2	1

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

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11 IMPAIRMENT LOSSES ON ASSETS

	2016	2015
Loans and advances to customers	1,972,362	1,124,585
Financial investments classified as loans and receivables	285,000	130,000
Financial lease receivables	57,789	–
Others	31,221	42,941
Total	2,346,372	1,297,526

12 INCOME TAX EXPENSE

(1) Income tax for the year:

	Note	2016	2015
Current tax		1,587,104	1,252,757
Deferred tax	24	(379,020)	(244,369)
Adjustment for prior years		4,363	(2,316)
Total		1,212,447	1,006,072

(2) Reconciliations between income tax and accounting profit are as follows:

	Note	2016	2015
Profit before tax		5,257,033	4,361,742
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		1,314,258	1,090,435
Non-deductible expenses		22,487	8,998
Non-taxable income	(i)	(128,661)	(91,045)
Sub-total		1,208,084	1,008,388
Adjustment for prior years		4,363	(2,316)
Income tax		1,212,447	1,006,072

- (i) Non-taxable income consists of interest income from the PRC government bonds, dividends from domestic companies and share of profits of associates, which are exempted from income tax under the PRC tax regulations.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

	Note	2016	2015
Net profit attributable to equity shareholders of the Bank		3,998,768	3,356,371
Weighted average number of ordinary shares (<i>in thousand shares</i>)	(1)	5,306,932	3,971,521
Basic and diluted earnings per share attributable to equity shareholders of the Bank (<i>in RMB</i>)		0.75	0.85

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year.

(1) Weighted average number of ordinary shares (in thousand shares)

	2016	2015
Number of ordinary shares as at January 1	5,141,932	3,941,932
Increase in weighted average number of ordinary shares	165,000	29,589
Weighted average number of ordinary shares	5,306,932	3,971,521

14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	December 31, 2016	December 31, 2015
Cash on hand		956,980	854,463
Deposits with central bank			
– Statutory deposit reserves	(1)	27,768,576	23,963,735
– Surplus deposit reserves	(2)	13,824,798	8,059,847
– Fiscal deposits		36,008	130,262
Sub-total		41,629,382	32,153,844
Total		42,586,362	33,008,307

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

14 CASH AND DEPOSITS WITH CENTRAL BANK (continued)

- (1) The Bank places statutory deposit reserves with 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:

	December 31, 2016	December 31, 2015
Reserve ratio for RMB deposits	13.5%	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.

The subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

- (2) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	December 31, 2016	December 31, 2015
Deposits in mainland China		
– Banks	347,715	3,706,367
– Other financial institutions	873,854	2,000
Sub-total	1,221,569	3,708,367
Deposits outside mainland China		
– Banks	193,359	3,970,711
Total	1,414,928	7,679,078

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2016	December 31, 2015
Placements in mainland China		
– Banks	11,758,215	5,519,560
Total	11,758,215	5,519,560

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	December 31, 2016	December 31, 2015
Debt securities held for trading purpose	(1)	8,551,297	13,001,517
Investment funds held for trading purpose		394,800	–
Total		8,946,097	13,001,517
(1) Debt securities held for trading purpose			
Mainland China			
– Government		519,614	1,046,670
– Policy banks		4,218,398	7,678,199
– Banks and other financial institutions		3,809,461	2,005,729
– Corporate		3,824	2,270,919
Sub-total		8,551,297	13,001,517
Debt securities analysed into			
– Listed outside Hong Kong		519,614	1,326,995
– Unlisted		8,031,683	11,674,522
Sub-total	(i)	8,551,297	13,001,517

- (i) As at the end of the reporting period, certain financial assets at fair value through profit or loss was pledged for repurchase agreements (Note 41(6)). No other investments were subject to material restrictions on the realization.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	December 31, 2016	December 31, 2015
In mainland China		
– Banks	3,678,558	3,284,329
– Other financial institutions	1,441,010	6,431,976
Total	5,119,568	9,716,305

(2) Analysed by type of collateral

	December 31, 2016	December 31, 2015
Debt securities	3,812,610	9,716,305
Bills	1,306,958	–
Total	5,119,568	9,716,305

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	December 31, 2016	December 31, 2015
Corporate loans and advances	81,254,576	67,009,033
Personal loans and advances		
– Personal business loans	11,750,766	12,025,020
– Residential mortgage	6,861,790	5,827,735
– Personal consumption loans	4,841,835	3,709,418
– Auto loans	490,848	772,051
– Credit card	870,069	507,212
– Others	8	13
Sub-total	24,815,316	22,841,449
Discounted bills	5,022,347	4,443,244
Gross loans and advances to customers	111,092,239	94,293,726
Less: Provision for impairment losses		
– Individually assessed	(536,463)	(386,153)
– Collectively assessed	(2,922,369)	(2,303,137)
Total provision for impairment losses	(3,458,832)	(2,689,290)
Net loans and advances to customers	107,633,407	91,604,436

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector

	December 31, 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail	29,897,940	26.91%	15,395,515
Manufacturing	13,054,621	11.75%	4,240,768
Construction	10,687,023	9.62%	6,463,753
Real estate	8,737,171	7.87%	7,389,971
Leasing and commercial services	4,092,399	3.68%	1,277,101
Agriculture, forestry, animal husbandry and fishery	3,619,829	3.26%	2,166,841
Water, environment and public facility management	2,087,799	1.88%	1,820,585
Mining	1,508,926	1.36%	456,130
Production and supply of electric and heating power, gas and water	1,390,580	1.25%	261,680
Transportation, storage and postal services	1,360,934	1.23%	402,372
Accommodation and catering	1,081,650	0.97%	784,357
Public administration, public security and social organisations	914,058	0.82%	—
Culture, sports and entertainment	210,300	0.19%	40,750
Others	2,611,346	2.35%	675,321
Sub-total of corporate loans and advances	81,254,576	73.14%	41,375,144
Personal loans and advances	24,815,316	22.34%	16,865,959
Discounted bills	5,022,347	4.52%	2,401,298
Gross loans and advances to customers	111,092,239	100.00%	60,642,401

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector (continued)

	December 31, 2015		Loans and advances secured by collaterals
	Amount	Percentage	
Wholesale and retail	23,617,884	25.05%	11,437,210
Manufacturing	14,101,155	14.95%	5,355,919
Real estate	7,349,608	7.79%	6,117,108
Construction	7,279,108	7.72%	4,442,330
Agriculture, forestry, animal husbandry and fishery	3,865,628	4.10%	2,093,740
Mining	1,848,987	1.96%	982,220
Leasing and commercial services	1,411,799	1.50%	701,640
Water, environment and public facility management	1,331,330	1.41%	734,030
Public administration, public security and social organisations	1,260,000	1.34%	—
Accommodation and catering	1,231,101	1.31%	893,751
Transportation, storage and postal services	1,132,722	1.20%	261,296
Production and supply of electric and heating power, gas and water	940,570	1.00%	352,960
Culture, sports and entertainment	434,780	0.46%	12,780
Others	1,204,361	1.28%	629,263
Sub-total of corporate loans and advances	67,009,033	71.07%	34,014,247
Personal loans and advances	22,841,449	24.22%	15,518,581
Discounted bills	4,443,244	4.71%	4,266,226
Gross loans and advances to customers	94,293,726	100.00%	53,799,054

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector (continued)

As at the end of the reporting 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 constitutes 10% or more of gross loans and advances to customers is as follows:

	December 31, 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
Wholesale and retail	373,063	152,737	1,022,650	843,830	439,737
Manufacturing	688,535	322,270	500,415	317,696	101,000

	December 31, 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
Wholesale and retail	365,212	132,053	758,045	362,543	50,560
Manufacturing	493,202	206,208	577,843	382,267	75,362

(3) Analysed by type of collateral

	December 31, 2016	December 31, 2015
Unsecured loans	7,659,802	1,316,185
Guaranteed loans	42,790,036	39,178,487
Loans secured by tangible assets other than monetary assets	33,254,544	30,193,828
Loans secured by intangible assets or monetary assets	27,387,857	23,605,226
Gross loans and advances to customers	111,092,239	94,293,726
Less: Provision for impairment losses		
– Individually assessed	(536,463)	(386,153)
– Collectively assessed	(2,922,369)	(2,303,137)
Total provision for impairment losses	(3,458,832)	(2,689,290)
Net loans and advances to customers	107,633,407	91,604,436

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
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19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Overdue loans analysed by overdue period

	December 31, 2016				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	4,884	2,254	590	–	7,728
Guaranteed loans	2,353,023	1,069,032	246,806	–	3,668,861
Loans secured by tangible assets other than monetary assets	642,044	373,859	97,625	530	1,114,058
Loans secured by intangible assets or monetary assets	217,572	90,990	3,500	–	312,062
Total	3,217,523	1,536,135	348,521	530	5,102,709
As a percentage of gross loans and advances to customers	2.90%	1.38%	0.31%	0.00%	4.59%

	December 31, 2015				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	674	5,524	36	–	6,234
Guaranteed loans	1,112,777	649,401	245,607	–	2,007,785
Loans secured by tangible assets other than monetary assets	369,060	164,701	55,015	530	589,306
Loans secured by intangible assets or monetary assets	265,452	21,038	3,500	–	289,990
Total	1,747,963	840,664	304,158	530	2,893,315
As a percentage of gross loans and advances to customers	1.86%	0.89%	0.32%	0.00%	3.07%

Notes to the Financial Statements (Continued)

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19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(5) Loans and advances and provision for impairment losses

	December 31, 2016				Gross impaired advances as a percentage of gross loans and advances
	Loans and advances for which loans and provision are collectively assessed	Impaired loans and advances		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	109,635,175	240,777	1,216,287	111,092,239	1.31%
Less: Provision for impairment losses	(2,821,668)	(100,701)	(536,463)	(3,458,832)	
Net loans and advances to customers	106,813,507	140,076	679,824	107,633,407	

	December 31, 2015				Gross impaired advances as a percentage of gross loans and advances
	Loans and advances for which loans and provision are collectively assessed	Impaired loans and advances		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	93,253,593	50,110	990,023	94,293,726	1.10%
Less: Provision for impairment losses	(2,282,729)	(20,408)	(386,153)	(2,689,290)	
Net loans and advances to customers	90,970,864	29,702	603,870	91,604,436	

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
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19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(6) Movements of provision for impairment losses

	2016			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
As at January 1	2,282,729	20,408	386,153	2,689,290
Charge for the year	699,255	253,857	1,113,765	2,066,877
Release for the year	–	–	(94,515)	(94,515)
Recoveries	–	2,490	3,000	5,490
Disposals	–	–	(265,471)	(265,471)
Write-offs	(160,316)	(176,054)	(557,094)	(893,464)
Unwinding of discount	–	–	(49,375)	(49,375)
As at December 31	2,821,668	100,701	536,463	3,458,832

	2015			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
As at January 1	1,534,704	5,287	219,933	1,759,924
Charge for the year	788,537	26,996	404,848	1,220,381
Release for the year	–	–	(95,796)	(95,796)
Recoveries	–	–	4	4
Write-offs	(40,512)	(11,875)	(101,060)	(153,447)
Unwinding of discount	–	–	(41,776)	(41,776)
As at December 31	2,282,729	20,408	386,153	2,689,290

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS

	Note	December 31, 2016	December 31, 2015
Available-for-sale financial assets	(1)	6,301,789	11,206,015
Held-to-maturity investments	(2)	49,671,048	23,901,914
Loans and receivables	(3)	118,224,916	65,105,660
Total		174,197,753	100,213,589

(1) Available-for-sale financial assets

	Note	December 31, 2016	December 31, 2015
Debt securities at fair value			
– Government		–	2,834,921
– Policy banks		1,202,185	3,886,937
– Corporate		119,091	115,816
Sub-total		1,321,276	6,837,674
Debt securities analysed into:			
– Listed outside Hong Kong		–	2,834,921
– Unlisted		1,321,276	4,002,753
Sub-total		1,321,276	6,837,674
Other debt investment			
– Unlisted		4,972,113	4,359,941
Equity investment at cost	(i)		
– Unlisted		8,400	8,400
Total		6,301,789	11,206,015

- (i) Available-for-sale unlisted equity investments which do not have any quoted price in an active market for an identical instrument and whose fair values cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment.

Notes to the Financial Statements (Continued)

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20 FINANCIAL INVESTMENTS (continued)

(2) Held-to-maturity investments

	Note	December 31, 2016	December 31, 2015
Debt securities			
– Government		14,263,579	8,100,048
– Policy banks		27,448,753	9,662,990
– Banks and other financial institutions		3,107,483	1,042,158
– Corporate		4,851,233	5,096,718
Total		49,671,048	23,901,914
Debt securities analysed into:			
– Listed outside Hong Kong		16,051,048	11,324,541
– Unlisted		33,620,000	12,577,373
Total	(i)	49,671,048	23,901,914

- (i) As at the end of year 2016 and year 2015, certain held-to-maturity investments was pledged for repurchase agreements (Note 41(6)). No other investments were subject to material restrictions on the realization.
- (ii) For the year ended December 31, 2016 and 2015, the Group has not disposed of any debt securities which are classified as held-to-maturity.

Notes to the Financial Statements (Continued)

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20 FINANCIAL INVESTMENTS (continued)

(3) Loans and receivables

	December 31, 2016	December 31, 2015
Investment management products under trust scheme	52,794,468	29,146,231
Investment management products managed by securities companies	45,079,359	31,328,899
Factoring and financial lease beneficial interest plan	13,150,125	2,065,543
Others	7,720,977	2,800,000
Sub-total	118,744,929	65,340,673
Less: Provision for impairment losses		
– Individually assessed	(25,428)	(25,428)
– Collectively assessed	(494,585)	(209,585)
Total provision for impairment losses	(520,013)	(235,013)
Total	118,224,916	65,105,660

21 FINANCIAL LEASE RECEIVABLES

	December 31, 2016	December 31, 2015
Minimum finance lease receivables	6,645,653	–
Less: Unearned finance lease income	(866,803)	–
Present value of finance lease receivables	5,778,850	–
Less: Provision for impairment losses		
– Collectively assessed	(57,789)	–
Total	5,721,061	–

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
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21 FINANCIAL LEASE RECEIVABLES (continued)

Finance lease receivables, unearned finance lease income and minimum finance lease receivables analysed by remaining period are listed as follows:

	31 December 2016			31 December 2015		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Less than 1 year	1,432,250	(312,201)	1,120,049	–	–	–
1 year to 2 years	1,669,236	(242,447)	1,426,789	–	–	–
2 years to 3 years	1,247,086	(163,861)	1,083,225	–	–	–
3 years to 5 years	2,220,050	(136,482)	2,083,568	–	–	–
More than 5 years	77,031	(11,812)	65,219	–	–	–
	6,645,653	(866,803)	5,778,850	–	–	–

22 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES

(1) Investment in subsidiaries

Particulars of the Group's subsidiaries as at the end of the reporting period is as follows:

Name	Percentage of equity interest		Voting rights	Paid-in capital	Amount invested by the Bank	Place of incorporation registration	Principal activities
	2016 %	2015 %					
Fugou Zhengyin County Bank Co., Ltd.	50.20	50.20	50.20	60,000	30,120	China	Banking
Henan Jiuding Financial Leasing Co., Ltd.	51.00	–	51.00	1,000,000	510,000	China	Leasing

(a) Fugou Zhengyin County Bank Co., Ltd. was incorporated on December 3, 2015. Henan Jiuding Financial Leasing Co., Ltd. was incorporated on March 23, 2016.

(b) Henan Jiuding Financial Leasing Co., Ltd., with a registered capital of RMB1.00 billion, was co-established by the Bank, Zhengzhou Yutong Bus Co., Ltd. and Henan TianLun Gas Group Co., Ltd. on March 23, 2016.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

22 INVESTMENT IN SUBSIDIARIES AND INTEREST IN ASSOCIATES (continued)

(2) Interest in associates

	December 31, 2016	December 31, 2015
Interest in associates	255,195	195,625
Total	255,195	195,625

The following list contains the Group's associates, all of which are individually immaterial to the Group and are unlisted corporate entities whose quoted market price are not available:

Name	Note	Percentages of equity/voting rights		Place of incorporation/ registration	Business sector
		December 31, 2016 %	December 31, 2015 %		
Zhongmu Zhengyin County Bank Co., Ltd.	(a)	18.53	19.72	Henan, China	Banking
Xinmi Zhengyin County Bank Co., Ltd.		20.00	20.00	Henan, China	Banking
Yanling Zhengyin County Bank Co., Ltd.		30.00	30.00	Henan, China	Banking
Xinzheng Zhengyin Country Bank Co., Ltd.		20.00	–	Henan, China	Banking

- (a) The Group has representation on the board of directors of Zhongmu Zhengyin County Bank Co., Ltd., and has significant influence over it.

The following table illustrates the aggregate information of the Group's associates that are not individually material:

	December 31, 2016	December 31, 2015
Aggregate carrying amount of the individually immaterial associates in the consolidated statements of financial position of the Group	255,195	195,625
Aggregate amounts of the Group's share of results of the associates		
– Profit from continuing operations	57,443	50,777
– Other comprehensive income	–	–
– Total comprehensive income	57,443	50,777

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

23 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2015	978,471	296,840	15,275	134,412	106,861	1,531,859
Additions	391,488	105,051	–	66,071	–	562,610
Disposals	(63,082)	(3)	–	(16,291)	–	(79,376)
As at December 31, 2015	1,306,877	401,888	15,275	184,192	106,861	2,015,093
Additions	101,472	71,077	1,464	40,741	29,213	243,967
Disposals	(749)	(7,231)	(2,356)	(24,653)	–	(34,989)
As at December 31, 2016	1,407,600	465,734	14,383	200,280	136,074	2,224,071
Accumulated depreciation						
As at January 1, 2015	(155,174)	(138,551)	(10,838)	(64,720)	–	(369,283)
Additions	(28,308)	(43,042)	(1,571)	(36,035)	–	(108,956)
Disposals	56,302	2	–	15,407	–	71,711
As at December 31, 2015	(127,180)	(181,591)	(12,409)	(85,348)	–	(406,528)
Additions	(38,876)	(65,555)	(1,203)	(42,090)	–	(147,724)
Disposals	711	6,832	2,239	23,393	–	33,175
As at December 31, 2016	(165,345)	(240,314)	(11,373)	(104,045)	–	(521,077)
Impairment						
As at January 1, 2015	(1,355)	(1,893)	–	(756)	–	(4,004)
Additions/Disposals	–	–	–	–	–	–
As at December 31, 2015	(1,355)	(1,893)	–	(756)	–	(4,004)
Additions/Disposals	–	–	–	–	–	–
As at December 31, 2016	(1,355)	(1,893)	–	(756)	–	(4,004)
Net book value						
As at December 31, 2015	1,178,342	218,404	2,866	98,088	106,861	1,604,561
As at December 31, 2016	1,240,900	223,527	3,010	95,479	136,074	1,698,990

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

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23 PROPERTY AND EQUIPMENT (continued)

The carrying amount of premises without title deeds as at December 31, 2016 was RMB308 million (December 31, 2015: RMB476 million). The Group is still in the progress of applying for the outstanding title deeds for the above premises. 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 reporting period are analysed by the remaining terms of the land leases as follows:

	December 31, 2016	December 31, 2015
Held in mainland China		
– Medium term leases (10–50 years)	1,235,010	1,171,535
– Short term leases (less than 10 years)	5,890	6,807
Total	1,240,900	1,178,342

24 DEFERRED TAX ASSETS

(1) Analysed by nature

	December 31, 2016		December 31, 2015	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Allowance for impairment losses	3,602,040	900,510	2,133,012	533,253
Accrued staff costs	215,640	53,910	235,287	58,822
Fair value changes in financial instruments	(1,580)	(395)	(56,546)	(14,137)
Provisions	57,040	14,260	42,941	10,735
Cumulative tax losses of the subsidiaries	5,493	1,373	1,877	470
Net deferred income tax assets	3,878,633	969,658	2,356,571	589,143

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

24 DEFERRED TAX ASSETS (continued)

(2) Analysed by movement

	At January 1, 2016	Recognised in profit or loss	Recognised in other comprehensive income	At December 31, 2016
Allowance for impairment losses	533,253	367,257	–	900,510
Accrued staff costs	58,822	(3,885)	(1,027)	53,910
Fair value changes in financial instruments	(14,137)	11,220	2,522	(395)
Provisions	10,735	3,525	–	14,260
Cumulative tax losses of the subsidiary	470	903	–	1,373
Net deferred income tax assets	589,143	379,020	1,495	969,658

	At January 1, 2015	Recognised in profit or loss	Recognised in other comprehensive income	At December 31, 2015
Allowance for impairment losses	287,819	245,434	–	533,253
Accrued staff costs	53,730	(4,164)	9,256	58,822
Fair value changes in financial instruments	(4,344)	(7,136)	(2,657)	(14,137)
Provisions	970	9,765	–	10,735
Cumulative tax losses of the subsidiary	–	470	–	470
Net deferred income tax assets	338,175	244,369	6,599	589,143

25 OTHER ASSETS

	Note	December 31, 2016	December 31, 2015
Interest receivables	(1)	1,940,495	1,209,680
Intangible assets	(2)	146,905	107,691
Prepayments		3,429,019	943,754
Leasehold improvements		131,789	122,338
Other receivables		198,530	107,505
Total		5,846,738	2,490,968

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

25 OTHER ASSETS (continued)

(1) Interest receivables

	December 31, 2016	December 31, 2015
Interest receivables arising from:		
– Investments	1,536,913	939,159
– Loans and advances to customers	238,092	193,915
– Others	184,887	96,003
Sub-total	1,959,892	1,229,077
Less: allowance for impairment losses	(19,397)	(19,397)
Total	1,940,495	1,209,680

(2) Intangible assets

	2016	2015
Cost		
As at January 1	165,494	123,005
Additions	64,027	43,089
Disposals	–	(600)
As at December 31	229,521	165,494
Accumulated amortisation		
As at January 1	(57,658)	(37,639)
Additions	(24,813)	(20,328)
Disposals	–	309
As at December 31	(82,471)	(57,658)
Impairment		
As at January 1	(145)	(145)
Additions/Disposals	–	–
As at December 31	(145)	(145)
Net book value		
As at January 1	107,691	85,221
As at December 31	146,905	107,691

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

26 DUE TO CENTRAL BANK

	December 31, 2016	December 31, 2015
Due to central bank	77,000	—
Total	77,000	—

27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2016	December 31, 2015
In mainland China		
– Banks	24,601,073	20,164,974
– Other financial institutions	1,207,180	1,288,204
Total	25,808,253	21,453,178

28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2016	December 31, 2015
In mainland China		
– Banks	18,505,611	5,755,300
– Non-bank financial institutions	600,000	—
Sub-total	19,105,611	5,755,300
Outside mainland China		
– Banks	—	64,936
Total	19,105,611	5,820,236

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	December 31, 2016	December 31, 2015
In mainland China		
– PBOC	27,000,000	370,000
– Banks	5,887,510	16,004,600
– Other financial institutions	363,860	3,228,000
Total	33,251,370	19,602,600

(2) Analysed by type of collateral

	December 31, 2016	December 31, 2015
Debt securities	33,251,370	19,602,600
Total	33,251,370	19,602,600

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

30 DEPOSITS FROM CUSTOMERS

	December 31, 2016	December 31, 2015
Demand deposits		
– Corporate deposits	77,197,449	62,770,877
– Personal deposits	16,177,507	12,976,427
Sub-total	93,374,956	75,747,304
Time deposits		
– Corporate deposits	54,782,696	34,241,395
– Personal deposits	44,647,136	34,105,833
Sub-total	99,429,832	68,347,228
Pledged deposits		
– Acceptances	19,581,940	21,332,895
– Letters of guarantees	1,871,430	2,086,058
– Letters of credit	983,350	681,180
– Others	817,970	712,199
Sub-total	23,254,690	24,812,332
Others	330,162	288,607
Total	216,389,640	169,195,471

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

31 DEBT SECURITIES ISSUED

	Note	December 31, 2016	December 31, 2015
Financial bonds	(1)	2,600,000	5,000,000
Tier-two capital bonds	(2)	4,997,944	2,000,000
Interbank deposits		37,062,502	20,039,068
Total		44,660,446	27,039,068

(1) Fixed rate financial bonds of RMB5.0 billion were issued in May 2013, detailed information is as follow:

- a. Fixed rate financial bonds of RMB2.4 billion with a term of three years was issued and matured in May 2016. The coupon rate is 4.58% per annum.
- b. Fixed rate financial bonds of RMB2.6 billion with a term of five years was issued. The coupon rate is 4.80% per annum.

(2) Tier-two capital bonds

Fixed rate tier-two capital bonds of RMB2.0 billion with a term of ten years were issued in December 2014. The coupon rate is 5.73% per annum.

Fixed rate tier-two capital bonds of RMB3.0 billion with a term of ten years were issued in December 2016. The coupon rate is 4.10% per annum.

32 OTHER LIABILITIES

	Note	December 31, 2016	December 31, 2015
Interest payable	(1)	3,095,586	2,542,902
Accrued staff costs	(2)	367,387	353,046
Dormant accounts		80,985	80,200
Payment and collection clearance accounts		146,229	112,026
Dividend payable		23,373	20,770
Provisions		57,040	42,941
Others		634,003	1,030,816
Total		4,404,603	4,182,701

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

32 OTHER LIABILITIES (continued)

(1) Interest payable

	December 31, 2016	December 31, 2015
Interest payable arising from:		
– Deposits from customers	2,587,932	1,947,342
– Deposits and placements from banks and other financial institutions	398,501	438,160
– Debt securities issued	82,372	150,156
– Financial assets sold under repurchase agreements	26,740	7,244
– Due to central bank	41	–
Total	3,095,586	2,542,902

(2) Accrued staff costs

	Note	December 31, 2016	December 31, 2015
Salary, bonuses and allowances payable		132,572	104,201
Staff welfare		4,529	–
Social insurance and annuity payable		2,613	–
Housing allowances payable		131	13
Labor union fee, staff and workers' education fee		11,902	13,545
Supplementary retirement benefits payable	(a)	215,640	235,287
Total		367,387	353,046

(a) Supplementary retirement benefits ("SRB")

The supplementary retirement benefits of the Group include early retirement plan and supplementary retirement plan. The early retirement benefits payments is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Group's 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 reporting period. The Group's obligations in respect of the SRB were accessed using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Mercer Consulting (China) Ltd..

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

32 OTHER LIABILITIES (continued)

(2) Accrued staff costs (continued)

(a) Supplementary retirement benefits ("SRB") (continued)

(i) The balances of supplementary retirement benefits of the Group are as follows:

	December 31, 2016	December 31, 2015
Present value of early retirement plan	41,664	54,796
Present value of supplementary retirement plan	173,976	180,491
Total	215,640	235,287

(ii) The movements of supplementary retirement benefits of the Group are as follows:

	2016	2015
As at January 1	235,287	214,918
Benefits paid during the year	(22,855)	(23,762)
Defined benefit cost recognised in profit or loss	7,315	7,108
Defined benefit cost recognised in other comprehensive income	(4,107)	37,023
As at December 31	215,640	235,287

(iii) Key actuarial assumptions of the Group are as follows:

	December 31, 2016	December 31, 2015
Early retirement plan		
Discount rate	2.80%	2.50%
Retired age		
– Male	60	60
– Female	55	55
Annual increase rate of internal salary	8.00%	8.00%

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

32 OTHER LIABILITIES (continued)

(2) Accrued staff costs (continued)

(a) Supplementary retirement benefits ("SRB") (continued)

(iii) Key actuarial assumptions of the Group are as follows: (continued)

	December 31, 2016	December 31, 2015
Supplementary retirement plan		
Discount rate	3.50%	3.40%
Retired age		
– Male	60	60
– Female	55	55

33 SHARE CAPITAL

Authorised and issued share capital

	December 31, 2016	December 31, 2015
Ordinary shares in Mainland China	3,803,932	3,821,932
Ordinary shares listed in Hong Kong (H-share)	1,518,000	1,320,000
Total	5,321,932	5,141,932

In December 2015, the Bank issued 1,200 million H-shares with a par value of RMB1 at an offering price of HKD3.85 per share (the "H-share offering"). The premium arising from the H-share offering amounting to RMB2,562 million was recorded in capital reserve. Immediately following the H-share offering, 120 million ordinary shares in Mainland China shares held by the National Council and Social Security Fund were converted to H-shares pursuant to the relevant PRC regulations relating to the reduction of state-owned shares.

In January 2016, the Bank issued 180 million H-shares (H-shares' over-allotment option) with a par value of RMB1 at an offering price of HKD3.85 per share. The premium arising from the H-share offering amounting to RMB392 million was recorded in capital reserve.

All the above H-shares have been listed on the Stock Exchange of Hong Kong Limited since January 20, 2016. The H-shares rank pari passu in all respects with the existing ordinary shares in Mainland China including the right to receive all dividends and distributions declared or made.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

34 RESERVES

(1) Capital reserve

	December 31, 2016	December 31, 2015
Share premium	2,990,312	2,597,890
Others	63,892	64,674
Total	3,054,204	2,662,564

(2) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital. The Bank appropriated an amount of RMB395 million to the statutory surplus reserve fund for the year of 2016 (2015: RMB336 million).

The Bank may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(3) General reserve

July 1, 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the MOF, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The Bank appropriated an amount of RMB1,365 million to the general reserve fund for the year of 2016 (2015: RMB850 million).

(4) Fair value reserve

	2016	2015
As at January 1	10,405	2,436
Change in fair value recognised in other comprehensive income	33,961	10,998
Transfer to profit or loss upon disposal	(44,047)	(372)
Less: deferred income tax	2,522	(2,657)
Sub-total	(7,564)	7,969
As at December 31	2,841	10,405

Notes to the Financial Statements (Continued)

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34 RESERVES (continued)

(5) Remeasurement of net defined benefit liability

Remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	2016	2015
As at January 1	(55,339)	(27,572)
Remeasuring the net defined benefit liability	4,107	(37,023)
Less: deferred income tax	(1,027)	9,256
Sub-total	3,080	(27,767)
As at December 31	(52,259)	(55,339)

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

34 RESERVES (continued)

(6) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

The Bank

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Total
Balance at January 1, 2016		5,141,932	2,662,564	1,237,793	3,163,200	10,405	(55,339)	5,634,991	17,795,546
Profit for the year		-	-	-	-	-	-	3,951,001	3,951,001
Other comprehensive income		-	-	-	-	(7,564)	3,080	-	(4,484)
Total comprehensive income		-	-	-	-	(7,564)	3,080	3,951,001	3,946,517
Changes in share capital									
– Issue of H-shares	33	180,000	392,422	-	-	-	-	-	572,422
Others		-	(782)	-	-	-	-	-	(782)
Sub-total		180,000	391,640	-	-	-	-	-	571,640
Appropriation of profit:									
– Appropriation to surplus reserve	34(2)	-	-	395,100	-	-	-	(395,100)	-
– Appropriation to general reserve	34(3)	-	-	-	1,350,000	-	-	(1,350,000)	-
– Cash dividend	35	-	-	-	-	-	-	(1,064,386)	(1,064,386)
Sub-total		-	-	395,100	1,350,000	-	-	(2,809,486)	(1,064,386)
Balance at December 31, 2016		5,321,932	3,054,204	1,632,893	4,513,200	2,841	(52,259)	6,776,506	21,249,317

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

34 RESERVES (continued)

(6) Movements in components of equity (continued)

The Bank

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Remeasurement of net defined benefit liability	Retained earnings	Total
Balance at January 1, 2015		3,941,932	100,327	902,085	2,313,200	2,436	(27,572)	4,173,170	11,405,578
Profit for the year		–	–	–	–	–	–	3,357,077	3,357,077
Other comprehensive income		–	–	–	–	7,969	(27,767)	–	(19,798)
Total comprehensive income		–	–	–	–	7,969	(27,767)	3,357,077	3,337,279
Changes in share capital									
– Issue of H-shares	33	1,200,000	2,562,237	–	–	–	–	–	3,762,237
Sub-total		1,200,000	2,562,237	–	–	–	–	–	3,762,237
Appropriation of profit:									
– Appropriation to surplus reserve	34(2)	–	–	335,708	–	–	–	(335,708)	–
– Appropriation to general reserve	34(3)	–	–	–	850,000	–	–	(850,000)	–
– Cash dividend	35	–	–	–	–	–	–	(709,548)	(709,548)
Sub-total		–	–	335,708	850,000	–	–	(1,895,256)	(709,548)
Balance at December 31, 2015		5,141,932	2,662,564	1,237,793	3,163,200	10,405	(55,339)	5,634,991	17,795,546

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

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35 PROFIT DISTRIBUTION

- (1) In accordance with the resolution of the Bank's board of directors meeting held on March 25, 2017, cash dividends of RMB2.2 per ten shares before tax and in an aggregation amount of approximately RMB1,171 million to all existing shareholders for the year ended December 31, 2016 has been proposed.

The profit appropriation resolution mentioned above has yet to be approved by the Bank's shareholders.

- (2) In accordance with the resolution of the Bank's 2015 Annual General Meeting held on June 17, 2016, the shareholders approved the profit distribution plan for the year ended December 31, 2015 and declared cash dividends of RMB2.00 per ten shares before tax and in an aggregation amount of approximately RMB1,064 million to all existing shareholders.
- (3) In accordance with the resolution of the Bank's 2014 Annual General Meeting held on June 18, 2015, the shareholders approved the profit distribution plan for the year ended December 31, 2014 and declared cash dividends of RMB1.80 per ten shares before tax and in an aggregation amount of approximately RMB710 million to all existing shareholders.

36 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents comprise:

	December 31, 2016	December 31, 2015
Cash on hand	956,980	854,463
Surplus deposit reserves with central bank	13,824,798	8,059,847
Deposits with banks and other financial institutions with original maturity of three months or less	1,341,021	5,599,950
Total	16,122,799	14,514,260

Notes to the Financial Statements (Continued)

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37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above shareholding.

Shareholding in the Bank:

	December 31, 2016	December 31, 2015
Zhengzhou Finance Bureau	9.22%	9.55%
Yutai International (Henan) Real Estate Development Co., Ltd.	4.92%	5.10%

(b) Subsidiaries and associates of the Bank

The detailed information of the Bank's subsidiaries and associates is set out in Note 22.

(c) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 37(1)(a) or their controlling shareholders. Other related parties also include post-employment benefit plans of the Bank (Note 32(2)).

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances

Related party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(a) Transactions with major shareholders

	December 31, 2016	December 31, 2015
Balances at the end of the year:		
Deposits from customers	473,204	236,362
Interest payable	50	24
Other liabilities	64,285	64,285
	2016	2015
Transactions during the year:		
Interest expense	725	1,332

(b) Transactions with subsidiaries

	December 31, 2016	December 31, 2015
Balances at the end of the year:		
Deposits from banks and other financial institutions	450,774	40,000
interest payable	556	7
	2016	2015
Transactions during the year:		
Interest expense	8,204	7

The above balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances (continued)

(c) Transactions with associates

	December 31, 2016	December 31, 2015
Balances at the end of the year:		
Deposits/Placements with banks and other financial institutions	50,900	270,000
Interest receivables	1,330	1,671
Other assets	–	1,288
Deposits/Placements from banks and other financial institutions	169,982	922,938
Interest payable	37	1,435
	2016	2015
Transactions during the year:		
Interest income	8,632	11,921
Interest expense	30,069	73,404

(d) Transactions with other important related parties

	December 31, 2016	December 31, 2015
Balances at the end of the year:		
Loans and advances to customers	1,941,111	240,465
Financial assets at fair value through profit or loss	–	70,008
Held to maturity investments	–	100,000
Financial investments classified as loans and receivables	1,500,000	5,533,880
Interest receivables	4,534	17,446
Deposits from customers	4,285,915	4,440,166
Deposits/Placements from banks and other financial institutions	114,674	335,712
Interest payable	4,760	1,845

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances (continued)

(d) Transactions with other important related parties (continued)

	2016	2015
Transactions during the year:		
Interest income	191,728	357,701
Interest expense	52,633	52,367

(3) Key management personnel

(a) Transactions with key management personnel

	December 31, 2016	December 31, 2015
Balances at the end of the year:		
Loans and advances to customers	8,582	12,121
Interest receivables	11	17
Deposits from customers	19,258	6,519
Interest payable	4	2
Transactions during the year:		
Interest income	348	614
Interest expense	88	32

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(3) Key management personnel (continued)

(b) Key management personnel remuneration

	2016	2015
Salaries and other emoluments	11,531	11,116
Discretionary bonuses	21,135	16,852
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	2,751	2,597
Total	35,417	30,565

No post-employment benefits, termination benefits or other long-term benefits were provided to key management personnel for the years ended December 31, 2016 and December 31, 2015.

(c) Loans to key officers

Loans and advances to directors, supervisors and officers of the Bank, which are 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:

	December 31, 2016	December 31, 2015
Aggregate amount of relevant loans outstanding as at the year end	8,582	12,121
Maximum aggregate amount of relevant loans outstanding during the year	19,832	24,785

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at December 31, 2016 (2015: Nil).

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

38 SEGMENT REPORTING

(1) Business Segment

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade finance and deposit taking activities, financial leasing services, agency services, and remittance and settlement 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 and deposit taking activities, bank card business, personal wealth management services, remittance and settlement services, and collection and payment agency services.

Treasury business

This segment covers the Group's treasury business including interbank money market transactions, repurchases transactions and investments. The treasury segment also covers management of the Group's overall liquidity position, including issuance of debts.

Others

These represent equity investment and related income and any other business which cannot form a single reportable segment.

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, with the exception of deferred income tax assets. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, intangible assets and other long-term assets.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

38 SEGMENT REPORTING (continued)

	Year ended December 31, 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income	2,876,115	600,720	4,823,158	–	8,299,993
Internal net interest income/(expense)	501,471	344,227	(845,698)	–	–
Net interest income	3,377,586	944,947	3,977,460	–	8,299,993
Net fee and commission income	517,463	90,485	606,493	–	1,214,441
Net trading gains	–	–	79,267	–	79,267
Net gains arising from investments	–	–	207,995	–	207,995
Other operating income	–	–	–	178,790	178,790
Operating income	3,895,049	1,035,432	4,871,215	178,790	9,980,486
Operating expenses	(1,112,862)	(417,344)	(867,596)	(36,722)	(2,434,524)
Impairment losses on assets	(1,674,808)	(386,564)	(285,000)	–	(2,346,372)
Operating profit	1,107,379	231,524	3,718,619	142,068	5,199,590
Share of profits of associates	–	–	–	57,443	57,443
Profit before taxation	1,107,379	231,524	3,718,619	199,511	5,257,033
Other segment information					
– Depreciation and amortisation	114,133	63,716	34,840	–	212,689
– Capital expenditure	191,695	107,016	58,517	4,021	361,249
	December 31, 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	121,525,598	37,659,309	204,406,701	1,586,706	365,178,314
Deferred tax assets					969,658
Total assets					366,147,972
Segment liabilities/Total liabilities	153,771,965	65,315,377	124,399,087	800,168	344,286,597
Credit commitments	62,277,614	1,005,794	–	–	63,283,408

(Expressed in thousands of Renminbi, unless otherwise stated)

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Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

38 SEGMENT REPORTING (continued)

(2) Geographical information

Geographically, the Group mainly conducts its business and majority of its customers and assets are located in Henan Province of the PRC.

39 RISK MANAGEMENT

The Group is primarily exposed to credit, interest rate, currency and liquidity risks from its use of financial instruments in the normal course of the Group's operations. This note mainly presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks.

The Group aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and minimise potential adverse effects.

The Board of Directors (the "Board") is the highest decision-making authority within the Group in terms of risk management and oversees the Group's risk management functions through the Risk Management Committee. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Senior management is the highest execution level in the risk management structure and reports directly to the Risk Management Committee of the Board. Based on the risk management strategies determined by the Board, senior management is responsible for formulating and implementing risk management policies and systems, as well as supervising, identifying and controlling the risks that various businesses are exposed to.

(1) 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 debt investments portfolios and guarantees granted.

Credit business

The Board is responsible for establishing the Group's risk management strategies 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, ensures that credit risk in various businesses are properly identified, assessed, calculated and monitored. The Risk Management Department is responsible for credit risk management. Departments such as the Corporate Business Department, the Retail Banking Department, the Financial Department of Small Business, the Interbank Department and the Financial Markets Department carry out credit businesses and investments portfolios business according to the Group's risk management policies and procedures.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

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 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's treasury business are exposed to the credit risk associated with the investment business and interbank business. The Group manages the credit risk exposures by setting up credit on its treasury business and interbank business. Credit risk exposure is closely monitored on a systematic, real-time basis. Credit risk limits are reviewed and updated regularly.

(a) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the carrying amount of each type of financial assets as at the end of each of the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of each of the reporting period is disclosed in Note 41(1).

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

Treasury Business (continued)

(b) Loans and advances to customers

	December 31, 2016	December 31, 2015
Gross balance of loans and advances to customers		
– Neither overdue nor impaired	105,873,597	91,397,779
– Overdue but not impaired	3,761,578	1,855,814
– Impaired	1,457,064	1,040,133
Sub-total	111,092,239	94,293,726
Less: Allowance for impairment loss		
– Neither overdue nor impaired	(2,326,501)	(2,016,712)
– Overdue but not impaired	(495,167)	(266,017)
– Impaired	(637,164)	(406,561)
Sub-total	(3,458,832)	(2,689,290)
Net balance		
– Neither overdue nor impaired	103,547,096	89,381,067
– Overdue but not impaired	3,266,411	1,589,797
– Impaired	819,900	633,572
Total	107,633,407	91,604,436

(i) Neither overdue nor impaired

Credit risk of loans and advances to customers neither overdue nor impaired was analysed as follows:

	December 31, 2016	December 31, 2015
Corporate loans and advances	82,357,390	68,848,711
Personal loans and advances	23,516,207	22,549,068
Total gross balance	105,873,597	91,397,779

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

Treasury Business (continued)

(b) Loans and advances to customers (continued)

(ii) Overdue but not impaired

The following tables present the overdue analysis of each type of loans and advances to customers of the Group which were overdue but not impaired as at the end of the reporting period.

	December 31, 2016				
	Less than 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	More than 1 year	Total
Corporate loans and advances	843,744	1,564,393	279,922	15,186	2,703,245
Personal loans and advances	328,796	468,962	260,175	400	1,058,333
Total gross balance	1,172,540	2,033,355	540,097	15,586	3,761,578

	December 31, 2015				
	Less than 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	More than 1 year	Total
Corporate loans and advances	475,701	1,042,178	95,664	–	1,613,543
Personal loans and advances	102,780	88,845	50,286	360	242,271
Total gross balance	578,481	1,131,023	145,950	360	1,855,814

	December 31, 2016	December 31, 2015
Fair value of collateral held against loans and advances overdue but not impaired	3,051,757	1,210,164

The above collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

Treasury Business (continued)

(b) Loans and advances to customers (continued)

(iii) Impaired loans

	December 31, 2016	December 31, 2015
Gross balance		
– Corporate loans and advances	1,216,287	990,023
– Personal loans and advances	240,777	50,110
Sub-total	1,457,064	1,040,133
% of total loans and advances	1.31%	1.10%
Allowance for impairment losses		
– Corporate loans and advances	(536,463)	(386,153)
– Personal loans and advances	(100,701)	(20,408)
Sub-total	(637,164)	(406,561)
Net balance		
– Corporate loans and advances	679,824	603,870
– Personal loans and advances	140,076	29,702
Total	819,900	633,572
Fair value of collateral held against impaired loans and advances	697,242	274,355

The above collateral mainly included land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

Treasury Business (continued)

(b) Loans and advances to customers (continued)

(iv) Loans and advances rescheduled

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, reschedule credit terms generally as a result of deterioration in the borrowers' financial conditions or of the borrowers' inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or assumption of the loans by a borrower with better repayment ability. Rescheduling is most commonly applied to term loans. There were no rescheduled loans as at December 31, 2015 and 2016.

(c) Amounts due from banks and other financial institutions

The Group adopts an internal credit rating approach in managing the credit risk of amounts due from banks and other financial institutions. The distribution according to the credit rating 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:

	December 31, 2016	December 31, 2015
Carrying amount		
Neither overdue nor impaired		
– grade A to AAA	15,781,416	21,345,497
– grade B to BBB	1,635,441	1,101,104
– unrated	875,854	468,342
Total	18,292,711	22,914,943

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

Treasury Business (continued)

(d) Debt securities investments

The credit risk of debt securities investments mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities investments by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities investments by types of issuers:

	December 31, 2016	December 31, 2015
Carrying amount		
Neither overdue nor impaired		
– Government	14,783,193	11,981,639
– Policy banks	32,869,336	21,228,126
– Banks and other financial institutions	6,916,944	3,047,887
– Corporate	4,974,148	7,483,453
Total	59,543,621	43,741,105

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

Treasury Business (continued)

(e) Financial investments classified as loans and receivables

	December 31, 2016	December 31, 2015
Gross balance of financial investments classified as loans and receivables		
– Neither overdue nor impaired	118,429,929	64,330,673
– Overdue but not impaired	225,000	920,000
– Impaired	90,000	90,000
Sub-total	118,744,929	65,340,673
Less: allowance for impairment loss		
– Neither overdue nor impaired	(417,727)	(200,245)
– Overdue but not impaired	(76,858)	(9,340)
– Impaired	(25,428)	(25,428)
Sub-total	(520,013)	(235,013)
Net balance		
– Neither overdue nor impaired	118,012,202	64,130,428
– Overdue but not impaired	148,142	910,660
– Impaired	64,572	64,572
	118,224,916	65,105,660
Fair value of collaterals held against financial investments classified as loans and receivables overdue but not impaired	780,228	1,969,228
Fair value of collaterals held against impaired financial investments classified as loans and receivables	64,572	64,572

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) 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, exchange rates, commodity prices, stock prices and other prices. The market risk management aims to manage and monitor market risk, control the potential losses associated with market risk within the acceptable limit and maximise the risk-adjusted income.

The Board is responsible for approving the market risk management strategies and policies, determining the acceptable level of market risk and authorising the Risk Management Committee to supervise the market risk management conducted by the senior management. The Finance and Accounting Department, Trade Finance Department, Financial Markets Department and Risk Management Department are responsible for identifying, measuring, monitoring and reporting the market risk.

The Group employed sensitivity analysis, interest repricing gap analysis, foreign currency gap analysis, stress testing and effective duration analysis to measure and monitor the market risk.

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.

Interest repricing 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.

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.

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.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) *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.

(1) 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 causes the Group’s income or its inherent economic value to vary with the movement in interest rates.

The Finance and Accounting Department and the Risk Management Department are responsible for identifying, 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.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

(1) Repricing risk (continued)

The following tables indicate the assets and liabilities analysis as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	December 31, 2016					
	Total	Non-interest bearing	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Assets						
Cash and deposits with central bank	42,586,362	992,987	41,593,375	-	-	-
Deposits/placements with banks and other financial institutions	13,173,143	14,774	2,246,064	10,907,305	-	5,000
Financial assets held under resale agreements	5,119,568	-	5,119,568	-	-	-
Loans and advances to customers (i)	107,633,407	-	88,385,736	18,629,953	600,530	17,188
Investments (ii)	183,399,045	263,595	43,018,787	42,725,015	68,842,106	28,549,542
Financial lease receivables	5,721,061	-	5,721,061	-	-	-
Others	8,515,386	6,297,786	2,217,600	-	-	-
Total assets	366,147,972	7,569,142	188,302,191	72,262,273	69,442,636	28,571,730
Liabilities						
Due to central bank	77,000	-	-	77,000	-	-
Deposits/placements from banks and other financial institutions	44,913,864	-	14,429,075	29,784,789	700,000	-
Financial assets sold under repurchase agreements	33,251,370	-	33,251,370	-	-	-
Deposits from customers	216,389,640	319,554	124,472,530	50,290,988	41,306,568	-
Debt securities issued	44,660,446	-	10,321,123	26,741,379	7,597,944	-
Others	4,994,277	4,994,277	-	-	-	-
Total liabilities	344,286,597	5,313,831	182,474,098	106,894,156	49,604,512	-
Asset-liability gap	21,861,375	2,255,311	5,828,093	(34,631,883)	19,838,124	28,571,730

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

(1) Repricing risk (continued)

	December 31, 2015					
	Total	Non-interest bearing	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Assets						
Cash and deposits with central bank	33,008,307	984,725	32,023,582	–	–	–
Deposits/placements with banks and other financial institutions	13,198,638	120,885	5,549,064	7,098,689	430,000	–
Financial assets held under resale agreements	9,716,305	–	9,716,305	–	–	–
Loans and advances to customers (i)	91,604,436	–	77,440,358	14,057,638	102,348	4,092
Investments (ii)	113,410,731	204,026	36,666,203	18,861,466	49,287,032	8,392,004
Others	4,684,672	4,684,672	–	–	–	–
Total assets	265,623,089	5,994,308	161,395,512	40,017,793	49,819,380	8,396,096
Liabilities						
Deposits/placements from banks and other financial institutions	27,273,414	–	9,373,114	16,500,300	1,400,000	–
Financial assets sold under repurchase agreements	19,602,600	–	19,602,600	–	–	–
Deposits from customers	169,195,471	284,313	105,288,831	41,205,143	20,368,567	2,048,617
Debt securities issued	27,039,068	–	2,870,228	19,568,840	4,600,000	–
Others	4,688,517	4,688,517	–	–	–	–
Total liabilities	247,799,070	4,972,830	137,134,773	77,274,283	26,368,567	2,048,617
Asset-liability gap	17,824,019	1,021,478	24,260,739	(37,256,490)	23,450,813	6,347,479

(i) For the Group's loans and advances to customers, the category "Within three months (inclusive)" as at December 31, 2016 includes overdue amounts (net of allowance for impairment losses) of RMB4,086 million (2015: RMB2,223 million).

(ii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, loans and receivables and interest in associates, the category "Within three months (inclusive)" as at December 31, 2016 includes overdue amounts (net of allowance for impairment losses) of RMB213 million (2015: RMB975 million).

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For the year ended December 31, 2016
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39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

(2) Interest rate sensitivity analysis

	December 31, 2016 (Decrease) /Increase	December 31, 2015 (Decrease) /Increase
Change in net profit		
Up 100 bps parallel shift in yield curves	(151,094)	(27,612)
Down 100 bps parallel shift in yield curves	151,094	27,612
	December 31, 2016 (Decrease) /Increase	December 31, 2015 (Decrease) /Increase
Change in equity		
Up 100 bps parallel shift in yield curves	(175,169)	(334,806)
Down 100 bps parallel shift in yield curves	175,169	334,806

The sensitivity analysis above is based on a static interest risk exposure profile of 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:

- All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the beginning of the respective periods;
- 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, all the position will be held and keep unchanged after matured; 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 and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk

The Group's currency risk mainly arises from foreign currency loans and deposits from customers. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the reporting period are as follows:

	December 31, 2016			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	41,924,686	658,977	2,699	42,586,362
Deposits/placements with banks and other financial institutions	1,217,234	11,860,728	95,181	13,173,143
Financial assets held under resale agreements	5,119,568	–	–	5,119,568
Loans and advances to customers	107,333,249	300,158	–	107,633,407
Investments (i)	181,101,311	1,938,525	359,209	183,399,045
Financial lease receivables	5,721,061	–	–	5,721,061
Others	8,405,561	109,825	–	8,515,386
Total assets	350,822,670	14,868,213	457,089	366,147,972
Liabilities				
Due to central bank	77,000	–	–	77,000
Deposits/placements from banks and other financial institutions	44,913,864	–	–	44,913,864
Financial assets sold under repurchase agreements	33,251,370	–	–	33,251,370
Deposits from customers	203,931,962	12,457,528	150	216,389,640
Debt securities issued	44,660,446	–	–	44,660,446
Others	4,849,474	144,615	188	4,994,277
Total liabilities	331,684,116	12,602,143	338	344,286,597
Net position	19,138,554	2,266,070	456,751	21,861,375
Off-balance sheet credit commitments	62,092,376	1,191,032	–	63,283,408

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For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

	December 31, 2015			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	32,660,859	345,818	1,630	33,008,307
Deposits/placements with banks and other financial institutions	2,732,785	7,102,457	3,363,396	13,198,638
Financial assets held under resale agreements	9,716,305	–	–	9,716,305
Loans and advances to customers	91,215,989	388,447	–	91,604,436
Investments (i)	113,410,731	–	–	113,410,731
Others	4,684,672	–	–	4,684,672
Total assets	254,421,341	7,836,722	3,365,026	265,623,089
Liabilities				
Deposits/placements from banks and other financial institutions	27,206,582	66,832	–	27,273,414
Financial assets sold under repurchase agreements	19,602,600	–	–	19,602,600
Deposits from customers	161,687,785	7,507,602	84	169,195,471
Debt securities issued	27,039,068	–	–	27,039,068
Others	4,104,730	159,692	424,095	4,688,517
Total liabilities	239,640,765	7,734,126	424,179	247,799,070
Net position	14,780,576	102,596	2,940,847	17,824,019
Off-balance sheet credit commitments	44,998,428	183,243	–	45,181,671

(i) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, loans and receivables and interest in associates.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

	December 31, 2016 Increase/ (decrease)	December 31, 2015 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	2,944	3,515
Down 100 bps change of foreign exchange rate	(2,944)	(3,515)

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

- 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 based on the closing rate of reporting date;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously;
- The foreign currency exposures calculated includes spot and forward foreign exchange exposures and swaps, and all the position will be held and keep unchanged after mature; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's net profit and equity resulting from the increase or decrease in foreign exchange rates may vary from the estimated results of this sensitivity analysis.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) 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.

The Group has implemented the centralised management of the Group-wide liquidity risk by the head office, and established the Risk Management Committee which mainly comprises the Liquidity Risk Management Committee, the Asset and Liability Management Committee and the Finance and Accounting Department at the head office. The responsibilities of them are as following:

- the Risk Management Committee and the Asset and Liability Management Committee are the decision-making bodies for liquidity risk management and are responsible for formulating the guidelines and policies for liquidity risk management;
- the Finance and Accounting Department is the liquidity risk management department and is responsible for implementing relevant liquidity risk management policies, monitoring various liquidity risk indicators; formulating, implementing and evaluating relevant systems, setting the Group-wide risk warning limits and guiding various business departments to manage liquidity risk on a daily basis; regularly carrying out risk analysis and reporting to the Risk Management Committee and the Asset and Liability Management Committee.

The Group manages liquidity risk by monitoring the maturities of the assets and liabilities, while actively monitoring multiple liquidity indicators, including loan to deposit ratio, liquidity ratio, reserve ratio, liquidity gap ratio, and etc.

The Group also formulates liquidity risk emergency plan to ensure sufficient liquidity under various market conditions.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a major source of funds.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis

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 reporting period:

	December 31, 2016						Total
	Indefinite	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Assets							
Cash and deposits with central bank	27,804,585	14,781,777	-	-	-	-	42,586,362
Deposits/placements with banks and other financial institutions	5,000	1,269,028	991,810	10,907,305	-	-	13,173,143
Financial assets held under resale agreements	-	-	5,119,568	-	-	-	5,119,568
Loans and advances to customers	2,979,993	1,964,833	19,674,888	57,376,160	17,644,019	7,993,514	107,633,407
Investments	476,190	-	34,413,058	49,780,090	69,761,988	28,967,719	183,399,045
Financial lease receivables	-	-	243,257	865,592	4,547,646	64,566	5,721,061
Others	2,815,553	90,285	2,850,573	2,264,771	489,172	5,032	8,515,386
Total assets	34,081,321	18,105,923	63,293,154	121,193,918	92,442,825	37,030,831	366,147,972
Liabilities							
Due to central bank	-	-	-	77,000	-	-	77,000
Deposits/placements from banks and other financial institutions	-	1,170,375	13,258,700	29,784,789	700,000	-	44,913,864
Financial assets sold under repurchase agreements	-	-	33,251,370	-	-	-	33,251,370
Deposits from customers	-	96,415,037	28,377,046	50,290,989	41,306,568	-	216,389,640
Debt securities issued	-	-	10,321,123	26,741,379	7,597,944	-	44,660,446
Others	-	384,061	3,820,997	174,192	498,307	116,720	4,994,277
Total liabilities	-	97,969,473	89,029,236	107,068,349	50,102,819	116,720	344,286,597
Long/(short) position	34,081,321	(79,863,550)	(25,736,082)	14,125,569	42,340,006	36,914,111	21,861,375

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
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39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	December 31, 2015						
	Indefinite	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	Total
Assets							
Cash and deposits with central bank	24,093,997	8,914,310	–	–	–	–	33,008,307
Deposits/placements with banks and other financial institutions	–	4,542,100	1,127,849	7,098,689	430,000	–	13,198,638
Financial assets held under resale agreements	–	–	9,716,305	–	–	–	9,716,305
Loans and advances to customers	1,688,927	1,039,296	17,663,739	51,360,040	12,964,387	6,888,047	91,604,436
Investments	1,178,893	–	21,820,316	31,020,965	50,585,461	8,805,096	113,410,731
Others	3,474,993	13,641	712,730	479,432	3,876	–	4,684,672
Total assets	30,436,810	14,509,347	51,040,939	89,959,126	63,983,724	15,693,143	265,623,089
Liabilities							
Deposits/placements from banks and other financial institutions	–	1,031,282	8,341,832	16,500,300	1,400,000	–	27,273,414
Financial assets sold under repurchase agreements	–	–	19,602,600	–	–	–	19,602,600
Deposits from customers	–	77,193,149	28,379,995	41,205,143	20,368,567	2,048,617	169,195,471
Debt securities issued	–	–	2,870,228	19,568,840	4,600,000	–	27,039,068
Others	–	639,158	3,025,859	216,721	679,372	127,407	4,688,517
Total liabilities	–	78,863,589	62,220,514	77,491,004	27,047,939	2,176,024	247,799,070
Long/(short) position	30,436,810	(64,354,242)	(11,179,575)	12,468,122	36,935,785	13,517,119	17,824,019

Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, loans and receivables and interest in associates. The “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not impaired is included in “repayable on demand”.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, the “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not impaired is included in “repayable on demand”.

(b) Analysis on contractual undiscounted cash flows of financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities at the end of the reporting period:

	December 31, 2016						
	Carrying amount at 31 December	Total	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Due to central bank	77,000	78,585	-	-	78,585	-	-
Deposits/placements from banks and other financial institutions	44,913,864	45,345,725	1,170,791	13,303,788	30,093,988	777,158	-
Financial assets sold under repurchase agreements	33,251,370	33,298,280	-	33,298,280	-	-	-
Deposits from customers	216,389,640	221,986,731	96,432,137	29,198,997	52,073,946	44,281,651	-
Debt securities issued	44,660,446	46,426,344	-	10,370,000	27,612,400	8,443,944	-
Total non-derivative financial liabilities	339,292,320	347,135,665	97,602,928	86,171,065	109,858,919	53,502,753	-

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
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39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(b) Analysis on contractual undiscounted cash flows of financial liabilities (continued)

December 31, 2015							
	Carrying amount at 31 December	Total	Repayable on demand	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Deposits/placements from banks and other financial institutions	27,273,414	28,821,372	1,052,837	8,760,784	17,165,759	1,841,992	–
Financial assets sold under repurchase agreements	19,602,600	19,624,862	–	19,624,862	–	–	–
Deposits from customers	169,195,471	173,574,743	77,204,247	29,092,212	42,385,175	22,843,431	2,049,678
Debt securities issued	27,039,068	28,362,720	–	2,880,000	20,289,320	5,193,400	–
Total non-derivative financial liabilities	243,110,553	250,383,697	78,257,084	60,357,858	79,840,254	29,878,823	2,049,678

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might vary from actual results.

(4) Operational risk

Operational risk refers to the risk of losses associated with internal process deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group has formulated operational risk management policies and procedures, aiming to identify, assess, monitor, control and mitigate the operational risk, and reduce losses associated with the operational risk.

The Group's measures to manage the operational risk mainly include:

- making use of risk alert system and paying attention to risk position and early risk alert on each aspect of business; making business risk assessment in time; carrying out centralised risk management on major business areas so as to reduce business operational risk;

Notes to the Financial Statements (Continued)

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39 RISK MANAGEMENT (continued)

(4) Operational risk (continued)

- establishing a supervision system combining “on-site and off-site”, “regular and special”, “self and external” examinations, identifying, monitoring, collecting risk factors and risk signals in the course of business operations, using centralized operational risk management tools, supervising and evaluating the sufficiency and effectiveness of operational risk management;
- the Compliance Department, the Risk Management Department and the Internal Audit Office constitute “three lines of defense” for operational risk management base on the separating responsibilities of the front, middle and the back offices. The Business and functional departments act as the first line of defense, the Compliance Department and the Risk Management Department act as the second line of defense and the Internal Audit Office acts as the third line of defense;
- establishing a compulsory leave and rotation policies to staff in key position or important process;
- establishing an expertise grade appraisal system for all employees, and selecting qualified employees through strict qualification examination and professional evaluation in accordance with the expertise and skills required by the various positions; and
- establishing a mechanism for emergency management and business continuity.

(5) Capital management

The Group manages capital mainly through capital adequacy ratio and return on equity ratio. Capital adequacy ratio is at the core of the Group’s capital management, reflecting capacity of the Group for prudent operation and risk prevention. The return on equity ratio reflects the profitability of equity. The main objective of capital management is to maintain a balanced reasonable capital amount and structure in line with the business development and expected return on equity.

The Group follows the principles below with regard to capital management:

- monitor levels of asset quality based on the Group’s business strategy and maintain adequate capital to support the implementation of the Group’s strategic development plan and meet the regulatory requirements; and
- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain the appropriate level of capital after considering the Group’s risk exposure and risk management needs.

The Group monitors the capital adequacy ratio periodically and adjusts the capital management plan when necessary to ensure the capital adequacy ratio meets both the regulatory requirements and business development needs.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
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39 RISK MANAGEMENT (continued)

(5) Capital management (continued)

The Group calculates the capital adequacy ratios as at December 31, 2016 and 2015 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法) issued by the CBRC in 2012 and relevant requirements promulgated by the CBRC as follows:

	Note	December 31, 2016	December 31, 2015
Total core tier-one capital			
– Share capital		5,321,932	5,141,932
– Valid portion of capital reserve		3,004,786	2,617,630
– Surplus reserve		1,632,893	1,237,793
– General reserve		4,527,789	3,163,200
– Retained earnings		6,808,978	5,634,285
– Valid portion of minority interests		363,130	23,218
Core tier-one capital		21,659,508	17,818,058
Core tier-one capital deductions		(383,789)	(284,259)
Net core tier-one capital		21,275,719	17,533,799
Other tier one capital		37,266	9
Net tier-one capital		21,312,985	17,533,808
Tier two capital			
– Qualifying portions of tier-two capital instruments issued		5,000,000	2,000,000
– Surplus provision for loan impairment		2,079,934	1,649,157
– Valid portion of minority interests		70,962	18
Net tier-two capital		7,150,896	3,649,175
Net capital base		28,463,881	21,182,983
Total risk weighted assets	(i)	242,109,283	173,696,609
Core tier-one capital adequacy ratio		8.79%	10.09%
Tier-one capital adequacy ratio		8.80%	10.09%
Capital adequacy ratio		11.76%	12.20%

Notes to the Financial Statements (Continued)

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39 RISK MANAGEMENT (continued)

(5) Capital management (continued)

- (i) Both the on-balance and off-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 as well as any eligible collateral or guarantees.
- (ii) Pursuant to the Notification on Matters Related to the Implementation of the Regulation Governing Capital of Commercial Banks (Provisional) in the Transitional Period (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知), the CBRC requires that the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio for commercial banks shall not fall below 9.7%, 7.7% and 6.7% at December 31, 2016 and 9.3%, 7.3% and 6.3% at December 31, 2015.

40 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
- Level 3: Fair value measured using significant unobservable inputs.

The Group has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

The Group adopts the following methods and assumptions when evaluating fair values:

(a) Debt securities investments

Fair values of debt securities investments are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

(b) 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 each of the reporting period.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
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40 FAIR VALUE (continued)

(1) Methods and assumptions for measurement of fair value (continued)

(c) 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 each of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of each of the reporting period.

(2) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements assets				
Financial assets at fair value through profit or loss				
– debt securities	519,614	8,031,683	–	8,551,297
– investment funds	–	394,800	–	394,800
Available-for-sale financial assets				
– debt instruments	–	1,321,276	4,972,113	6,293,389
Total	519,614	9,747,759	4,972,113	15,239,486

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements assets				
Financial assets at fair value through profit or loss				
– debt securities	1,326,995	11,674,522	–	13,001,517
Available-for-sale financial assets				
– debt instruments	2,834,921	4,002,753	4,359,941	11,197,615
Total	4,161,916	15,677,275	4,359,941	24,199,132

During the year ended December 31, 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (31 December 2015: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

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40 FAIR VALUE (continued)

(3) Movement in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing balance of level 3 financial assets and liabilities which are recorded at fair value and the movement during the year:

	January 1, 2016	Total gains recorded in profit or loss	Total gains recorded in other comprehensive income	Additions	Disposals/ Settlements	Transfers to Level 2 from Level 3	December 31, 2016
Financial assets:							
Available-for-sale financial assets							
– Debt instruments	4,359,941	190,612	–	4,360,716	(3,939,156)	–	4,972,113
	January 1, 2015	Total gains recorded in profit or loss	Total gains recorded in other comprehensive income	Additions	Disposals/ Settlements	Transfers to Level 2 from Level 3	December 31, 2015
Financial assets:							
Available-for-sale financial assets							
– Debt instruments	1,106,420	91,949	–	4,279,941	(1,118,369)	–	4,359,941

During the reporting period, 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.

Total gains recorded in profit or loss is recognised in the line item “interest income” on the face of the consolidated statement of profit or loss and other comprehensive income.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
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40 FAIR VALUE (continued)

(4) Fair value of financial assets and liabilities not carried at fair value

	December 31, 2016				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	49,671,048	48,837,029	16,157,343	32,679,686	–
Total	49,671,048	48,837,029	16,157,343	32,679,686	–
Financial liabilities					
Debt securities issued					
– Financial bonds	2,600,000	2,617,631	–	2,617,631	–
– Tier-two capital bonds	4,997,944	4,987,689	–	4,987,689	–
– Interbank deposits	37,062,502	35,715,648	–	35,715,648	–
Total	44,660,446	43,320,968	–	43,320,968	–
December 31, 2015					
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	23,901,914	24,626,119	11,642,338	12,983,781	–
Total	23,901,914	24,626,119	11,642,338	12,983,781	–
Financial liabilities					
Debt securities issued					
– Financial bonds	5,000,000	5,078,718	–	5,078,718	–
– Tier-two capital bonds	2,000,000	2,088,728	–	2,088,728	–
– Interbank deposits	20,039,068	19,807,554	–	19,807,554	–
Total	27,039,068	26,975,000	–	26,975,000	–

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods are adopted to determine the fair values of these assets and liabilities.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

40 FAIR VALUE (continued)

(4) Fair value of financial assets and liabilities not carried at fair value (continued)

The fair values of held-to-maturity investments and debt securities issued are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

Financial investments classified as loans and receivables are stated at amortized cost using the effective interest method. The fair value of financial investments classified as loans and receivables is estimated based on future cash flows expected to be received which is discounted at current market rates. Majority of the financial investments classified as loans and receivables are repriced at least annually to the market rate. Accordingly, their carrying values approximate their fair values.

The above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or repriced at current market rates frequently, are as follows:

Assets

Cash and deposits with central bank
Deposits with banks and other financial institutions
Placements with banks and other financial institutions
Financial assets held under resale agreements
Loans and advances to customers
Financial lease receivables
Other financial assets

Liabilities

Due to central bank
Deposits from banks and other financial institutions
Placements from banks and other financial institutions
Financial assets sold under repurchase agreements
Deposits from customers
Other financial liabilities

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

41 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

The Group's credit commitments take the form of bank acceptances, unused credit card limits, letters of credit and guarantees.

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from its customers. The contractual amounts of unused 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.

	December 31, 2016	December 31, 2015
Bank acceptances	58,122,706	41,388,973
Letters of credit	2,984,292	2,294,599
Guarantees	1,170,616	1,034,947
Unused credit card commitments	1,005,794	463,152
Total	63,283,408	45,181,671

The Group may be exposed to credit risk in all the above credit businesses. Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(2) Credit risk-weighted amount

	December 31, 2016	December 31, 2015
Credit risk-weighted amount of contingent liabilities and commitments	18,879,397	13,965,648

The credit risk weighted amount represents 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 range from 0% to 150% for credit commitments.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

41 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(3) Operating lease commitments

As at December 31, 2016 and 2015, the future minimum lease payments under non-cancellable operating leases for properties of the Group are as follows:

	December 31, 2016	December 31, 2015
Within one year (inclusive)	91,208	55,941
After one year but within five years (inclusive)	244,262	164,642
After five years	165,679	126,891
Total	501,149	347,474

(4) Capital commitments

As at December 31, 2016 and 2015, the authorised capital commitments of the Group are as follows:

	December 31, 2016	December 31, 2015
Contracted but not paid for	267,792	133,239
Approved but not contracted for	72,643	173,411
Total	340,435	306,650

(5) Outstanding litigations and disputes

As at December 31, 2016 and 2015, there are no significant legal proceedings outstanding against the Group.

(6) Pledged assets

	December 31, 2016	December 31, 2015
Debt securities	32,934,901	20,332,689
Total	32,934,901	20,332,689

Some of the Group's assets are pledged as collateral under repurchase agreements.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(1) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and financed through the issue of notes to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Group as at December 31, 2016 and 2015 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	December 31, 2016	
	Carrying amount	Maximum exposure
Financial investments		
– Financial assets at fair value through profit or loss	394,800	394,800
– Available-for-sale financial assets	4,972,113	4,972,113
– Financial investment classified as loans and receivables	105,249,436	105,249,436
Interest receivables	456,494	456,494
Total	111,072,843	111,072,843

	December 31, 2015	
	Carrying amount	Maximum exposure
Financial investments		
– Available-for-sale financial assets	4,359,941	4,359,941
– Financial investment classified as loans and receivables	63,063,894	63,063,894
Interest receivables	163,694	163,694
Total	67,587,529	67,587,529

The maximum exposures to loss in the above investment management products and wealth management products are the carrying amount of the assets held by the Group and the related interest receivables at the end of each of the reporting period.

The interest income arising from the above unconsolidated structured entities for the year ended 2016 amounted to RMB5,440 million (2015: RMB3,647 million).

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

(2) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in

The types of unstructured 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 notes to investors. Interest held by the Group includes fees charged by providing management services.

As at December 31, 2016, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB43,209 million (December 31, 2015: RMB15,968 million).

During the years ended December 31, 2016, the amount of fee and commission income received from the non-principal-guaranteed wealth management products sponsored and issued by the Group and matured within the corresponding year is RMB11 million (2015: RMB27 million).

During the years ended December 31, 2016, the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group and matured within the corresponding year is RMB11,883 million (2015: RMB10,836 million).

43 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in these financial statements as they are not the Group's assets.

As at December 31, 2016, the entrusted loans balance of the Group is RMB7,423 million (2015: RMB7,498 million).

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

44 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	December 31, 2016	December 31, 2015
Assets		
Cash and deposits with central bank	42,565,761	33,007,532
Deposits with banks and other financial institutions	1,290,553	7,654,454
Placements with banks and other financial institutions	11,758,215	5,519,560
Financial assets at fair value through profit or loss	8,946,097	13,001,517
Financial assets held under resale agreements	5,119,568	9,716,305
Loans and advances to customers	107,471,481	91,603,736
Financial investments:		
Available-for-sale financial assets	6,301,789	11,206,015
Held-to-maturity investments	49,671,048	23,901,914
Loans and receivables	118,224,916	65,105,660
Interest in associates and subsidiaries	795,315	225,745
Property and equipment	1,679,243	1,604,267
Deferred tax assets	967,620	588,673
Other assets	3,570,533	2,490,963
Total assets	358,362,139	265,626,341
Liabilities		
Deposits from banks and other financial institutions	26,259,027	21,493,178
Placements from banks and other financial institutions	12,175,611	5,820,236
Financial assets sold under repurchase agreements	33,251,370	19,602,600
Deposits from customers	216,176,986	169,187,645
Tax payable	568,325	505,816
Debt securities issued	44,660,446	27,039,068
Other liabilities	4,021,057	4,182,252
Total liabilities	337,112,822	247,830,795

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

44 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (continued)

	December 31, 2016	December 31, 2015
Equity		
Share capital	5,321,932	5,141,932
Capital reserve	3,054,204	2,662,564
Surplus reserve	1,632,893	1,237,793
General reserve	4,513,200	3,163,200
Fair value reserve	2,841	10,405
Remeasurement of net defined benefit liability	(52,259)	(55,339)
Retained earnings	6,776,506	5,634,991
Total equity	21,249,317	17,795,546
Total liabilities and equity	358,362,139	265,626,341

Approved and authorised for issue by the board of directors on March 25, 2017.

Wang Tianyu

*Chairman of the Board of Directors
Executive Director*

Shen Xueqing

*President
Executive Director*

Mao Yuezhen

Chief accountant

Li Guoquan

*General Manager of the Planning
and Finance Department*

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

45 SUBSEQUENT EVENTS

The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting held on March 25, 2017 (Note 35).

46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

		Effective for accounting period beginning on or after
Amendments to IAS 7	Disclosure initiative	January 1, 2017
Amendments to IAS 12	Income taxes – Recognition of deferred tax assets for unrealised losses	January 1, 2017
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	January 1, 2018
IFRS 16	Leases	January 1, 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2016 (continued)

Further information about those changes that are expected to affect the Group is as follows:

IFRS 9 “Financial instruments”

IFRS 9, published in July 2014 and effective for annual periods beginning on or after 1 January 2018, will replace the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Group is in the process of assessing the potential impact resulting from the application of IFRS 9. Given the nature of the Group’s operations, the standard is expected to have a material impact on the Group’s financial information.

IFRS 9 will change the way the Group classifies and measures its financial assets. IAS 39 measurement categories ‘financial assets at fair value through profit or loss’, ‘held-to-maturity investments’, ‘loans and receivables’ and ‘available-for-sale financial assets’ will be replaced by three main categories in IFRS 9, which are ‘amortised cost’, ‘fair value through other comprehensive income’ and ‘fair value through profit or loss’. The approach for classifying financial assets will also change. Under IAS 39 the characteristics of financial assets are analysed for any embedded derivatives and whether those have to be separated from the host contract (bifurcation of hybrid instruments). IFRS 9 uses a different approach that does not involve the bifurcation of financial assets. Instead, financial assets are classified in their entirety into a measurement category. This classification of financial assets under IFRS 9 will require the Group to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurement.

For financial assets that will be classified as ‘amortised cost’ or ‘fair value through other comprehensive income’, the Bank will be required to apply an expected loss impairment model that will apply to both those measurement categories as well as other exposures to credit risk such as some loan commitments and some financial guarantees. This impairment model will replace the different impairment models in IAS 39 (the incurred loss impairment model and the impairment model for available-for-sale financial assets) as well as the requirements in IAS 37 that related to some types of credit risk exposures (such as some loan commitments and some financial guarantees). The main differences between the new expected loss impairment model compared to the incurred loss model in IAS 39 are that the expected credit loss model uses more forward-looking information and that it does not involve a threshold until which credit losses remain unrecognised. Consequently, financial assets in the scope of the new impairment model will require a loss allowance to be recognised throughout their lives and the relative change of credit risk since initial recognition of the financial asset drives whether that loss allowance is equal to 12-month expected credit losses or lifetime expected credit losses. Lifetime expected credit losses represent all credit losses over the remaining life of a financial asset on a probability-weighted basis. 12-month expected credit losses are a subset of the lifetime expected credit losses and represent the losses expected to arise from default events within the next 12 months after the reporting date.

It is not practicable to provide a reasonable estimate of the effect or quantify the impact on its operating results and financial position until the Group makes a detailed assessment as the adoption of the new standard requires changes to systems and processes to collect necessary data.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2016 (continued)

IFRS 16 “Leases”

In January 2016, the IASB issued IFRS 16, “Leases”, which replaces the current guidance in IAS 17. The new standard requires the companies to bring leases on-balance sheet for lessees. The new standard also makes changes in accounting over the life of the lease, and introduces a stark dividing line between leases and service contracts.

Under IFRS 16 there is no longer a distinction between finance leases and operating leases so far as lessees are concerned. Instead, subject to practical expedients, a lessee recognises all leases on-balance sheet by recognising a right-of-use (ROU) asset and lease liability.

Lessor accounting is substantially unchanged – i.e. lessors continue to classify leases as finance and operating leases. However, there are a number of changes in the details of lessor accounting. For example, lessors apply the new definition of a lease, sale-and-leaseback guidance, sub-lease guidance and disclosure requirements.

The Group is currently assessing the impact of the standard on its financial position and performance.

Unaudited Supplementary Financial Information

(Expressed in thousands 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 purpose only.

1 LIQUIDITY COVERAGE RATIOS AND LEVERAGE RATIO

	December 31, 2016	Average for the year ended December 31, 2016
Liquidity coverage ratio (RMB and foreign currency)	256.91%	275.82%

	December 31, 2015	Average for the year ended December 31, 2015
Liquidity coverage ratio (RMB and foreign currency)	388.42%	265.29%

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%, 90% and 100% by the end of 2015, 2016, 2017 and 2018, respectively.

	December 31, 2016	December 31, 2015
Leverage ratio	5.15%	5.65%

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 thousands of Renminbi, unless otherwise stated)

2 CURRENCY CONCENTRATIONS

	December 31, 2016			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	14,868,213	450,013	7,076	15,325,302
Spot liabilities	(12,602,143)	(338)	–	(12,602,481)
Net position	2,266,070	449,675	7,076	2,722,821

	December 31, 2015			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	7,836,722	3,363,144	1,882	11,201,748
Spot liabilities	(7,734,126)	(424,179)	–	(8,158,305)
Net position	102,596	2,938,965	1,882	3,043,443

The Group has no structural position at the reporting periods.

Unaudited Supplementary Financial Information (Continued)

(Expressed in thousands 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, balances with central banks and amounts due from banks and other financial institutions.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	December 31, 2016			
	Banks and other financial institutions	Public sector entities	Others	Total
North and South America	451,927	–	300,502	752,429
Asia Pacific excluding mainland China	91,634	–	–	91,634
Europe	6,480	–	–	6,480
	550,041	–	300,502	850,543

	December 31, 2015			
	Banks and other financial institutions	Public sector entities	Others	Total
North and South America	1,928,928	63,848	325,017	2,317,793
Asia Pacific excluding mainland China	3,363,413	–	–	3,363,413
	5,292,341	63,848	325,017	5,681,206

Unaudited Supplementary Financial Information (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

	December 31, 2016	December 31, 2015
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	831,657	494,563
– between 6 months and 1 year (inclusive)	704,478	346,101
– over 1 year	349,051	304,688
Total	1,885,186	1,145,352
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.75%	0.52%
– between 6 months and 1 year (inclusive)	0.63%	0.37%
– over 1 year	0.31%	0.32%
Total	1.69%	1.21%

DEFINITIONS

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set forth below:

"Articles of Association"	the articles of association of the Bank, as amended from time to time
"Bank", "Bank of Zhengzhou" or "We"	Bank of Zhengzhou Co., Ltd. (鄭州銀行股份有限公司)*, a joint stock company incorporated in the PRC with limited liability on November 16, 1996 in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
"Board" or "Board of Directors"	the board of Directors of the Bank
"Board of Supervisors"	the board of Supervisors of the Bank
"CBRC"	China Banking Regulatory Commission
"CBRC Henan Bureau"	China Banking Regulatory Commission Henan Bureau
"CSRC"	China Securities Regulatory Commission
"Director(s)"	the director(s) of the Bank
"A Share(s)"	ordinary share(s) to be issued by the Bank pursuant to the A Share Offering and subscribed for in RMB
"A Share Offering"	the Bank's initial public offering of not more than 600,000,000 A Shares, which will be listed on the Shenzhen Stock Exchange
"Domestic Shares"	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"A Share(s)"	overseas-listed shares in the share capital of our Bank, with a nominal value of RMB1.00 each, which are listed and traded on the Main Board of the Hong Kong Stock Exchange
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Jiuding Financial Leasing Company"	Henan Jiuding Financial Leasing Co., Ltd (河南九鼎金融租賃股份有限公司)
"Latest Practicable Date"	March 10, 2017, being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining certain information contained in this annual report

DEFINITIONS (Continued)

"Listing Date"	December 23, 2015, the date on which dealings in the H Shares first commenced on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Macau"	the Macau Special Administrative Region of the PRC
"PBoC" or "Central Bank"	the People's Bank of China
"PRC"	the People's Republic of China, and for the purpose of this annual report only, excluding Hong Kong, Macau and Taiwan
"Reporting Period"	the year ended December 31, 2016
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"Shareholder(s)"	the shareholder(s) of the Bank
"Shares"	the Domestic Shares and the H Shares
"Supervisor(s)"	the supervisor(s) of the Bank

* The Bank is not an authorised institution within the meaning of the Banking Ordinance (Chapter 155 of the laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorised to carry on relevant banking and/or deposit-taking business in Hong Kong.

