



2016

Annual Report



Shengjing Bank Co., Ltd.\*

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


Stock Code: 02066

城市



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\* *Shengjing Bank Co., Ltd. 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 banking and/or deposit-taking business in Hong Kong.*

## COMPANY INFORMATION

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<b>Legal Name in Chinese</b>	盛京銀行股份有限公司
<b>Abbreviation in Chinese</b>	盛京銀行
<b>Legal Name in English</b>	Shengjing Bank Co., Ltd.
<b>Abbreviation in English</b>	SHENGJING BANK
<b>Legal Representative</b>	ZHANG Yukun
<b>Authorised Representatives</b>	WANG Yigong and ZHOU Zhi
<b>Secretary to the Board of Directors</b>	ZHOU Zhi
<b>Joint Company Secretaries</b>	ZHOU Zhi and KWONG Yin Ping Yvonne
<b>Registered and Business Address</b>	No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC
<b>Contact Number</b>	86-24-22535633
<b>Website</b>	<a href="http://www.shengjingbank.com.cn">www.shengjingbank.com.cn</a>
<b>Principal Place of Business in Hong Kong</b>	Units 08–09, 18/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong
<b>Website of the Hong Kong Stock Exchange on which the H Share Annual Report is Published</b>	<a href="http://www.hkexnews.hk">www.hkexnews.hk</a>
<b>Place of Maintenance of the Annual Report</b>	Office of the Board of Directors of the Bank
<b>Stock Name</b>	Shengjing Bank

## COMPANY INFORMATION (Continued)

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<b>Stock Code</b>	02066
<b>H Share Registrar and its Business Address</b>	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
<b>Legal Advisor as to PRC Laws and its Business Address</b>	Tian Yuan Law Firm 10/F, China Pacific Insurance Plaza 28 Fengsheng Hutong Xicheng District Beijing, the PRC
<b>Legal Advisor as to Hong Kong Law and its Business Address</b>	Freshfields Bruckhaus Deringer 11th Floor, Two Exchange Square Central Hong Kong
<b>Auditor and its Business Address</b>	KPMG 8th Floor Prince’s Building 10 Chater Road Hong Kong

# FINANCIAL HIGHLIGHTS

(Expressed in thousands of Renminbi, unless otherwise stated)	Year-on-year change between 2016 and 2015					
	2016	2015	and 2015	2014	2013	2012
			<b>Rate of change (%)</b>			
<b>Operating Results</b>						
Interest income	36,055,533	31,479,529	14.5	25,415,004	18,038,013	13,835,459
Interest expense	(22,837,867)	(19,530,998)	16.9	(15,513,832)	(10,193,830)	(7,050,533)
Net interest income	13,217,666	11,948,531	10.6	9,901,172	7,844,183	6,784,926
Net fee and commission income	1,913,907	1,204,189	58.9	1,368,431	770,141	112,246
Net trading gains/(losses), net gains/ (losses) arising from investments, Net foreign exchange gains/(losses), other operating income	982,303	1,031,436	(4.8)	(64,840)	291,470	11,119
Operating income	16,113,876	14,184,156	13.6	11,204,763	8,905,794	6,908,291
Operating expenses	(3,730,598)	(4,102,162)	(9.1)	(3,211,887)	(2,445,727)	(2,017,380)
Impairment losses on assets	(3,675,411)	(1,955,377)	88.0	(934,151)	(171,860)	(431,714)
Operating profit	8,707,867	8,126,617	7.2	7,058,725	6,288,207	4,459,197
Share of profits of associates	–	–	N/A	2,338	19,719	23,795
Profit before taxation	8,707,867	8,126,617	7.2	7,061,063	6,307,926	4,482,992
Income tax expense	(1,829,575)	(1,902,790)	(3.8)	(1,637,225)	(1,419,125)	(973,653)
Net profit	6,878,292	6,223,827	10.5	5,423,838	4,888,801	3,509,339
Net profit attributable to equity shareholders of the Bank	<u>6,864,520</u>	<u>6,211,334</u>	<u>10.5</u>	<u>5,404,933</u>	<u>4,865,531</u>	<u>3,496,626</u>

## FINANCIAL HIGHLIGHTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)	2016	2015	Year-on-year change between 2016 and 2015	2014	2013	2012
			<b>Change</b>			
<b>Calculated on a per share basis (RMB)</b>						
Basic earnings per share	1.18	1.07	0.11	1.25	1.31	0.95
Dividend per share	0.25	0.28	(0.03)	0.275	0.10	–
			<b>Rate of change (%)</b>			
<b>Major indicators of assets/liabilities</b>						
Total assets	905,482,647	701,628,500	29.1	503,370,514	355,432,167	313,241,579
Of which: loans and advances to customers	228,880,732	191,531,735	19.5	155,946,864	131,557,892	112,271,202
Total liabilities	859,108,021	659,913,547	30.2	467,237,029	333,961,729	298,583,755
Of which: deposits from customers	415,246,159	402,379,086	3.2	315,943,789	262,912,728	207,987,227
Share capital	5,796,680	5,796,680	–	5,646,005	4,096,005	3,696,005
Equity attributable to equity shareholders of the Bank	45,794,429	41,268,528	11.0	35,699,553	21,055,411	14,266,067
Total equity	<u>46,374,626</u>	<u>41,714,953</u>	<u>11.2</u>	<u>36,133,485</u>	<u>21,470,438</u>	<u>14,657,824</u>

## FINANCIAL HIGHLIGHTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)	2016	2015	Year-on-year change between 2016 and 2015	2014	2013	2012
			<b>Change</b>			
<b>Profitability Indicators (%)</b>						
Return on average total assets <sup>(1)</sup>	0.86	1.03	(0.17)	1.26	1.46	1.31
Return on average equity <sup>(2)</sup>	15.62	15.99	(0.37)	18.83	27.06	26.98
Net interest spread <sup>(3)</sup>	1.65	2.00	(0.35)	2.07	2.17	2.51
Net interest margin <sup>(4)</sup>	1.75	2.14	(0.39)	2.32	2.39	2.68
Net fee and commission income to operating income	11.88	8.49	3.39	12.21	8.65	1.62
Cost-to-income ratio <sup>(5)</sup>	19.31	19.04	0.27	19.06	19.01	20.80
			<b>Change</b>			
<b>Asset quality indicators (%)</b>						
Non-performing loan ratio <sup>(6)</sup>	1.74	0.42	1.32	0.44	0.46	0.54
Allowance to non-performing loans <sup>(7)</sup>	159.17	482.38	(323.21)	387.42	306.12	302.58
Allowance to total loans <sup>(8)</sup>	2.78	2.01	0.77	1.70	1.41	1.63
			<b>Change</b>			
<b>Capital adequacy indicators (%)</b>						
Calculated based on Capital Adequacy Ratio						
Core capital adequacy ratio	N/A	N/A		N/A	N/A	9.39
Capital adequacy ratio	N/A	N/A		N/A	N/A	11.92
Calculated based on Capital Administrative Measures						
Core Tier-one capital adequacy ratio <sup>(9)</sup>	9.10	9.42	(0.32)	11.04	10.07	N/A
Tier-one capital adequacy ratio <sup>(9)</sup>	9.10	9.42	(0.32)	11.04	10.07	N/A
Capital adequacy ratio	11.99	13.03	(1.04)	12.65	11.17	N/A
Total equity to total assets ratio	5.12	5.95	(0.83)	7.18	6.04	4.68
			<b>Change</b>			
<b>Other indicators (%)</b>						
Loan-to-deposit ratio <sup>(10)</sup>	56.69	48.58	8.11	50.21	50.75	54.87



## FINANCIAL HIGHLIGHTS (Continued)

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- (1) Calculated by dividing the net profit by the average of total assets at the beginning and at the end of the period.
- (2) Representing the net profit during the period as a percentage of the average balance of total equity at the beginning and the end of the period.
- (3) Calculated by deducting the average interest rate of interest-bearing liabilities from the average return rate of interest-earning assets.
- (4) Calculated by dividing net interest income by the average interest-earning assets.
- (5) Calculated by dividing operating expenses (less business tax and surcharges) by operating income.
- (6) Calculated by dividing the balance of non-performing loans by total balance of loans and advances to customers.
- (7) Calculated by dividing the balance of provision for impairment on loans by the balance of non-performing loans.
- (8) Calculated by dividing the balance of the provision for impairment on loans by the total balance of loans and advances to customers.
- (9) Core Tier-one capital adequacy ratio, core capital adequacy ratio and capital adequacy ratio were calculated in accordance with the latest guidance promulgated by the CBRC (effective from 1 January 2013).
- (10) The loan-to-deposit ratio is calculated by dividing the total balance of loans and advances to customers by total deposits from customers.

## MESSAGE FROM THE BOARD

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In 2016, faced with the complicated situation of continuous macro-economic downward pressures and risks exposure in the region and in the banking industry, the Bank adhered to forward-looking market research and judgment as well as prudent risk control strategies, thoroughly implemented innovation and transformation and integrated operation strategies, constantly enriched businesses, products and functional licenses, and continuously strengthened pricing management and operating cost management and control, all of which have contributed to a good situation where the Bank's operational results recorded steady increases and its developmental potentials were gradually released.

## MESSAGE FROM THE BOARD (Continued)

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As at 31 December 2016, the Bank's total assets were RMB905.483 billion, representing a year-on-year increase of 29.1%; the balance of all loans amounted to RMB235.417 billion, representing a year-on-year increase of 20.4%; and the balance of deposits was RMB415.246 billion, representing a year-on-year increase of 3.2%. In 2016, the Bank realised an operating income of RMB16.114 billion, representing a year-on-year increase of 13.6%, and a net profit of RMB6.878 billion, representing a year-on-year increase of 10.5%.

In 2016, by virtue of our advantages in good operational results, sound business functions, outstanding brand reputation and rigorous cost control, the Bank successfully entered the list of Top 500 Chinese Enterprises, ranking 364th; and ranked 186th in the list of "Top 1,000 Global Banks for 2016" as issued by The Banker, a magazine in Britain, moving up 6 places as compared with 2015, and ranked 24th in all Chinese banks in the list. All these honours and awards have fully shown recognition of the Bank by various circles of the society and the capital market and have effectively enhanced the Bank's image. The Board of the Bank would like to take this opportunity to extend our cordial gratitude to all the shareholders and customers for their trust and support! And also our sincere gratitude to various circles of the society who have long been supporting us!

2017 is a year to carry forward the "13th Five-Year Plan" of our nation and also a critical year for the Bank to achieve the milestone of 1,000 billion assets. Faced with severe economic situations both at home and abroad, the banking industry will have to meet up with many tough challenges for a long period of time, including adjustment and improvement of structure, reshaping of market environment, intensified financial disintermediation and continuous exposure of non-performing assets. In the new year, by giving full play to its leading role, the Board will lead the Bank to actively embrace the opportunities and challenges brought by the "New Normality", thoroughly promote strategic transformation and innovative development, accelerate a strategic deployment by transforming from traditional business to newly emerging business and from traditional operation to comprehensive operation, implement a management and control strategy on costs and expenses centering on value management, so as to further enhance meticulous management, continuously strengthen risk control capability for comprehensive operation, and deliver stronger operational results in return for the trust and support from all the shareholders and investors of the Bank and various circles of the society!

# HONOURS AND AWARDS

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Honours and Awards	Awarders
Best Brand Urban Commercial Bank for 2015; Ranked 3rd in the Competitiveness Assessment of Urban Commercial Banks with Assets Valued More Than RMB300 billion for 2015; Ranked 2nd in the list of People's Favorite Urban Commercial Banks	The Banker
Ranked 186th in Top 1000 Global Banks for 2016 and 24th in all Chinese banks in the list	The Banker (Britain)
Ranked 23rd in Top 100 Chinese Banks for 2016	China Banking Association
China Financial Market Listed Company Award for 2016 – Best Listed Company	China Financial Market, a financial magazine in Hong Kong
Ranked 6th in the Competitiveness List of Urban Commercial Banks in China for 2016	21st Century Business Herald
One of Top 10 Urban Commercial Banks for Excellent Competitiveness for 2016	China Business Journal
One of Top 5 Urban Commercial Banks for Excellent Competitiveness and Risk Management for 2016	China Business Journal
Quality Assessment on Operation of Bank Card Interbank Information Exchange System in Liaoning Province – Best Quality Award of System Operation of the Year	China Unionpay
Best Revenue Award of Financial Institutions in the China Banking Industry for 2015	China Banking Association
2016 Promotion Activities of Financial Knowledge in China's Banking Industry	China Banking Association
Excellent Dealer for 2016	National Interbank Funding Center
The Best Membership Award, the Best Spot Membership Award, and the Best Foreign Currency Pair Membership Award for 2016	China Foreign Exchange Trading System

## HONOURS AND AWARDS (Continued)

Honours and Awards	Awarders
Top 500 Chinese Credit Enterprises for 2015	China Cooperating Trade Enterprises Association China Enterprise Reform And Development Society
Excellent Self-operating Institution Prize, Excellent Issuer Prize, Progress Award in Bond Business for 2016	China Central Depository & Clearing Co., Ltd.
Best Innovation Project Award in the China Finance Industry for 2016 (Application of Multi-application Mode in Dual-Live Data Centre)	International Data Corporation (IDC)
Ranked 29th in the list of China Finance Top 500	NetEase Finance
Liaoning Sub-list under China Financial Review List for 2016 – Excellent Contribution Award in Liaoning Finance Industry for Ten Years, Financial Contribution Award of the Year for Supporting Economic Development in Local Area, Best Urban Commercial Bank of the Year, Best Bank Card of Urban Commercial Bank of the Year	LiaoShen Evening NEWS
Satisfactory Enterprise of Users in Liaoning Province	Liaoning Association of Quality Liaoning Committee of Users

# MANAGEMENT DISCUSSION AND ANALYSIS

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## 5.1 ENVIRONMENT AND PROSPECTS

At present, the international economy is going through a thorough adjustment, where the slow economic growth is continuing, and regional and global challenges are frequently happening. In the meantime, the domestic economy is experiencing slow growth, and the transformation of profound adjustment in economic structure and changes in economic driving force is still going on. Under the influence of multiple complicated factors such as intensifying competition in the finance industry, tightened financial regulation and impact from Internet finance, the risk control, business innovation and strategic transformation of commercial banks are confronting challenges and tests.

In 2017, China will implement a series of policies and measures to promote a steady economic growth. In particular, the banking sector will be embracing new opportunities for the continued optimisation of customer base and business structure as well as the innovation and expansion of profit-generating sources thanks to the stable and positive economic development brought by the implementation of national strategies such as “one belt, one road”, coordinated development of Yangtze River economic belt and the Beijing-Tianjin-Hebei region, a new round of revitalising Northeast China, “made in China 2025”, the orderly advancement of pilot reform programs in free trade zones, as well as the strategy of the deepening structural reform in the supply side further promoted by the Central Economic Working Conference.

Adhering to the development values of “innovation, coordination, environmental-friendly, open-mindedness and sharing” and with the goal of integrated operation, the Bank will focus on further improving its corporate governance and strengthening its internal control and execution effectiveness. With the help of its system reform, operation and management innovation, risk control and talent building, the Bank will also accelerate the transformation of its business structure and profit models, improve its asset efficiency and investment returns, maintain its stable and sound assets, and build its brand and image, thereby comprehensively improving its core competitiveness.

### 5.2 DEVELOPMENT STRATEGIES

In the next two or three years, the Bank will actively adapt to the new economic mode, proactively cooperate in the nation's efforts of revitalising Northeast China, and capture the opportunities in the financial reform. In particular, with the aim of "developing itself into a first-class bank and building up a century-old brand", it will focus on steady progress and adhere to the positioning of "driving the strategic development of regional economy", "cultivating emerging industries", "supporting small and medium-size enterprises" and "providing accommodating services to residents". Emphasising reform, development, sound quality, structure adjustment and innovation, it will give full play to the leadership and strategic values of the finance industry and constantly optimise its ideas and ways of serving the real economy, in order to achieve a win-win situation for itself and the regional economy.

To achieve the above objectives, the Bank will adopt the following measures. First, the Bank will strengthen the construction of its organisational system and mechanism of integrated operation, actively apply for licenses and qualifications in relation to financial lease, direct banking, industry investment fund, fund custody and other financial services, advance its integrated strategic deployment, and improve its capability of providing all-round financial services. Second, the Bank will promote the coordinated development of its traditional businesses and innovative businesses, advance the implementation of customer strategies, solidify its business foundation, cultivate and diversify its product functions, and improve the supporting system for its products, to establish a diversified financing model and a multi-channel source of income. Third, the Bank will strengthen its capital cost control and the refined management of capital, enhance the construction of its accounting and audit system, and improve its system and mechanism of capital pricing management, economic capital management and asset/liability management to improve its capital operation efficiency and comprehensive profit level. Fourth, the Bank will adhere to a prudent and stable risk management strategy, improve its comprehensive risk management system in line with its business development and transformation, and strengthen its cross-institutional, cross-business and cross-discipline risk management ability to continuously improve its ability of risk prevention and control. Fifth, the Bank will deepen the construction of its incentive and restraint mechanism, improve its performance-oriented and profit-based remuneration system, and promote its market-driven allocation of human resources to enhance the effectiveness of its human resources management.

### 5.3 BUSINESS REVIEW

In 2016, facing the complicated and changing macroeconomic and financial situation home and abroad, constant strengthening of the financial reform and financial regulation, rapid development of the Internet finance, and the growing competition in the industry, the Bank continued consolidating its advantages in the traditional businesses, and orderly advancing its operational innovation and business transformation. By doing this, the Bank achieved continuously improving business results, rapidly increasing total assets and a double-digit growth in net profit, all of which contributed to the steady improvement in its comprehensive competitiveness.

As at 31 December 2016, the Bank had total assets of RMB905.483 billion, representing a year-on-year increase of 29.1%; balance of total loans and advances to customers of RMB235.417 billion, representing a year-on-year increase of 20.4%; non-performing loan ratio of 1.74%; balance of total deposits from customers of RMB415.246 billion, representing a year-on-year increase of 3.2%. In 2016, operating income of the Bank was RMB16.114 billion, representing a year-on-year increase of 13.6% and net profit of the Bank was RMB6.878 billion, representing a year-on-year increase of 10.5%.

The Bank made overall planning for all operating and management resources, further promoted the strategy of customer development, continued strengthening the classified management of strategic customers, optimised and adjusted the structure of asset business, vigorously tapped the advantages of retail business resources, constantly advanced the construction of online and offline channels, actively expanded the development opportunities featuring professionalism and diversity, and orderly promoted the comprehensive operation and the group-wide development.

The Bank adhered to the prudent and steady strategy for risk control, strictly complied with the bottom line of risk control, continued to strengthen the comprehensive risk management and compliant operation, continuously optimised the differentiation strategy in terms of industries, regions, customers and projects, strengthened the risk management and internal control, and implemented self-assessment of compliant operation and risk management, all of which contributed to its strengthened ability to respond to market changes and competition.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4 FINANCIAL REVIEW

As at 31 December 2016, the total assets of the Bank reached RMB905.483 billion by a year-on-year increase of 29.1%; balance of loans and advances to customers amounted to RMB235.417 billion, representing a year-on-year increase of 20.4%; and the non-performing loan ratio was 1.74%. The balance of deposits from customers of the Bank reached RMB415.246 billion by a year-on-year increase of 3.2%. The operating income of the Bank reached RMB16.114 billion, representing a year-on-year increase of 13.6%; and the net profit amounted to RMB6.878 billion, representing a year-on-year increase of 10.5%.

As at 31 December 2016, the capital adequacy ratio, Tier-one capital adequacy ratio and core Tier-one capital adequacy ratio of the Bank were 11.99%, 9.10% and 9.10%, respectively.

#### 5.4.1 Analysis of the Income Statement

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2016	2015	Change in amount	Rate of change (%)
Interest income	36,055,533	31,479,529	4,576,004	14.5
Interest expense	(22,837,867)	(19,530,998)	(3,306,869)	16.9
<b>Net interest income</b>	<b>13,217,666</b>	<b>11,948,531</b>	<b>1,269,135</b>	<b>10.6</b>
Net fee and commission income	1,913,907	1,204,189	709,718	58.9
Net trading gains/(losses)	191,051	(71,645)	262,696	N/A
Net gains arising from investments	892,217	653,510	238,707	36.5
Net foreign exchange (losses)/gains	(151,337)	426,159	(577,496)	N/A
Other operating income	50,372	23,412	26,960	115.2
Operating income	16,113,876	14,184,156	1,929,720	13.6
Operating expenses	(3,730,598)	(4,102,162)	371,564	(9.1)
Impairment losses on assets	(3,675,411)	(1,955,377)	(1,720,034)	88.0
<b>Profit before tax</b>	<b>8,707,867</b>	<b>8,126,617</b>	<b>581,250</b>	<b>7.2</b>
Income tax expense	(1,829,575)	(1,902,790)	73,215	(3.8)
<b>Net profit</b>	<b>6,878,292</b>	<b>6,223,827</b>	<b>654,465</b>	<b>10.5</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In 2016, the Bank's profit before tax was RMB8.708 billion, representing a year-on-year increase of 7.2%; net profit was RMB6.878 billion, representing a year-on-year increase of 10.5%, mainly attributable to the stable growth of interest-earning assets which contributed to the growth of the net interest income by a year-on-year increase of RMB1.269 billion or 10.6%.

### 5.4.1.1 Net Interest Income

Net interest income constitutes the largest component of the operating income of the Bank, accounting for 82.0% and 84.2% of the operating income of the year of 2016 and 2015, respectively. The following table sets forth the interest income, interest expense and net interest income of the Bank for the years indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2016	2015	Change in amount	Rate of change (%)
Interest income	36,055,533	31,479,529	4,576,004	14.5
Interest expense	(22,837,867)	(19,530,998)	(3,306,869)	16.9
<b>Net interest income</b>	<b>13,217,666</b>	<b>11,948,531</b>	<b>1,269,135</b>	<b>10.6</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table sets forth the average balances of interest-earning assets and interest-bearing liabilities, the related interest income or expense and the related average yields on interest-earning assets or the related average costs of interest-bearing liabilities for the years indicated. The average balances of the interest-earning assets and interest-bearing liabilities for the years of 2016 and 2015 are the average balances derived from the Bank's management accounts and have not been audited:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2016			For the year ended 31 December 2015		
	Average balance	Interest income/ expense	Average yield/cost (%)	Average balance	Interest income/ expense	Average yield/cost (%)
<b>Interest-earning assets</b>						
Loans and advances to customers	196,890,632	13,387,183	6.80	183,278,866	13,669,050	7.46
Financial investments	395,224,238	18,284,081	4.63	214,461,859	11,822,919	5.51
Deposits with central bank	57,363,080	862,163	1.50	56,893,383	854,329	1.50
Deposits with banks and other financial institutions	84,603,006	2,994,430	3.54	75,158,827	4,082,138	5.43
Financial assets held under resale agreements	11,467,239	245,107	2.14	22,851,743	855,054	3.74
Placements with banks and other financial institutions	4,799,081	97,849	2.04	600,484	7,567	1.26
Financial assets at fair value through profit or loss	6,130,902	184,720	3.01	4,756,075	188,472	3.96
<b>Total interest-earning assets</b>	<b>756,478,178</b>	<b>36,055,533</b>	<b>4.77</b>	<b>558,001,237</b>	<b>31,479,529</b>	<b>5.64</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2016			For the year ended 31 December 2015		
	Average balance	Interest income/ expense	Average yield/cost (%)	Average balance	Interest income/ expense	Average yield/cost (%)
<b>Interest-bearing liabilities</b>						
Borrowings from central bank	59,216,093	1,727,404	2.92	279,685	9,090	3.25
Deposits from customers	465,991,521	14,048,925	3.01	371,364,826	12,150,221	3.27
Deposits from banks and other financial institutions	90,954,784	3,558,913	3.91	105,183,269	5,575,196	5.30
Financial assets sold under repurchase agreements	17,162,711	373,281	2.17	37,041,758	1,034,686	2.79
Placements from banks and other financial institutions	15,481,803	240,440	1.55	5,046,719	80,119	1.59
Debt securities issued	83,990,402	2,888,904	3.44	17,373,126	681,686	3.92
<b>Total interest-bearing liabilities</b>	<b>732,797,314</b>	<b>22,837,867</b>	<b>3.12</b>	<b>536,289,383</b>	<b>19,530,998</b>	<b>3.64</b>
Net interest income		13,217,666			11,948,531	
Net interest margin <sup>(1)</sup>			1.65			2.00
Net interest yield <sup>(2)</sup>			1.75			2.14

*Notes:*

- (1) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (2) Calculated by dividing net interest income by average balance of total interest-earning assets on annualised basis.

The following table sets forth the changes in the Bank's interest income and interest expense due to changes in volume and rates for the years indicated. Volume and rate variances have been measured based on movements in average balances over these years, and changes in interest rates have been measured based on daily average interest-earning assets and interest-bearing liabilities. Variances caused by changes in both volume and interest rate have been allocated to the interest rate.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December		
	2016 vs. 2015		
	Increase/ (decrease) Volume <sup>(1)</sup>	Due to Rate <sup>(2)</sup>	Net increase/ (decrease) <sup>(3)</sup>
<b>Interest-earning assets</b>			
Loans and advances to customers	1,015,438	(1,297,305)	(281,867)
Financial investments	9,960,007	(3,498,845)	6,461,162
Deposits with central bank	7,045	789	7,834
Deposits with banks and other financial institutions	512,819	(1,600,527)	(1,087,708)
Financial assets held under resale agreements	(425,780)	(184,167)	(609,947)
Placements with banks and other financial institutions	52,902	37,380	90,282
Financial assets at fair value through profit or loss	54,443	(58,195)	(3,752)
<b>Changes in interest income</b>	<u>11,176,874</u>	<u>(6,600,870)</u>	<u>4,576,004</u>
<b>Interest-bearing liabilities</b>			
Borrowings from central bank	1,915,433	(197,119)	1,718,314
Deposits from customers	3,094,293	(1,195,589)	1,898,704
Deposits from banks and other financial institutions	(754,110)	(1,262,173)	(2,016,283)
Financial assets sold under repurchase agreements	(554,625)	(106,780)	(661,405)
Placements from banks and other financial institutions	165,918	(5,597)	160,321
Debt securities issued	2,611,397	(404,179)	2,207,218
<b>Changes in interest income expense</b>	<u>6,478,306</u>	<u>(3,171,437)</u>	<u>3,306,869</u>
<b>Changes in net interest income</b>	<u>4,698,568</u>	<u>(3,429,433)</u>	<u>1,269,135</u>

*Notes:*

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

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.1.2 Interest Income

The following table sets forth the breakdown of the interest income of the Bank for the years indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2016		2015	
	Amount	% of total	Amount	% of total
Loans and advances to customers				
Corporate loans (including discounted bills)	13,031,884	36.1	13,308,511	42.3
Personal loans	355,299	1.0	360,539	1.1
Sub-total	<u>13,387,183</u>	<u>37.1</u>	<u>13,669,050</u>	<u>43.4</u>
Financial investments	18,284,081	50.7	11,822,919	37.6
Deposits with central bank	862,163	2.4	854,329	2.7
Deposits with banks and other financial institutions	2,994,430	8.3	4,082,138	13.0
Financial assets held under resale agreements	245,107	0.7	855,054	2.7
Placements with banks and other financial institutions	97,849	0.3	7,567	0.0
Financial assets at fair value through profit or loss	<u>184,720</u>	<u>0.5</u>	<u>188,472</u>	<u>0.6</u>
<b>Total</b>	<b><u>36,055,533</u></b>	<b><u>100.0</u></b>	<b><u>31,479,529</u></b>	<b><u>100.0</u></b>

The Bank's interest income increased by 14.5% from RMB31.480 billion for the year of 2015 to RMB36.056 billion for the year of 2016, primarily due to (i) an increase in the volume of financial investments and (ii) an increase in the volume of loans and advances to customers.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 1. Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers accounts for 37.1% and 43.4% of the interest income for the years of 2016 and 2015, respectively. The following table sets forth the average balances of the loans and advances to customers, related interest income and the average yield of loans and advances to customers:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December					
	2016			2015		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans (including discounted bills)	190,208,831	13,031,884	6.85	176,926,314	13,308,511	7.52
Personal loans	6,681,801	355,299	5.32	6,352,552	360,539	5.68
<b>Total</b>	<b>196,890,632</b>	<b>13,387,183</b>	<b>6.80</b>	<b>183,278,866</b>	<b>13,669,050</b>	<b>7.46</b>

### 2. Interest Income from Financial Investments

Interest income from financial investments increased by 54.6% from RMB11.823 billion for the year of 2015 to RMB18.284 billion for the year of 2016, mainly due to increase in the average balance of our financial investments as a result of the increase in bond investments and trust beneficiary nights.

### 3. Interest Income from Deposits with Central Bank

Interest income from deposits with the central bank is generally unchanged, with a slight increase by 0.9% from RMB854 million for the year of 2015 to RMB862 million for the year of 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 4. *Interest Income from Deposits with Banks and Other Financial Institutions*

Interest income from deposits with banks and other financial institutions decreased by 26.6% from RMB4.082 billion for the year of 2015 to RMB2.994 billion for the year of 2016, mainly due to the sharp decrease in the amount of average yield of the deposits with banks and other financial institutions.

### 5. *Interest Income from Financial Assets Held under Resale Agreements*

Interest income from financial assets held under resale agreements decreased by 71.3% from RMB855 million for the year of 2015 to RMB245 million for the year of 2016, mainly because the Bank made an adjustment to its business structure and decreased its investment in billing business due to the operational risk in the bill market in 2016. As a result, the average balance of bills held under resale agreements decreased significantly. As at the end of the period, the balance of bills held under resale agreements at the Bank was nil.

#### 5.4.1.3 *Interest expense*

The following table sets forth the principal components of the interest expense of the Bank for the years indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2016		2015	
	Amount	% of total	Amount	% of total
Borrowings from central bank	1,727,404	7.6	9,090	0.0
Deposits from customers	14,048,925	61.5	12,150,221	62.3
Deposits from banks and other financial institutions	3,558,913	15.6	5,575,196	28.5
Financial assets sold under repurchase agreements	373,281	1.6	1,034,686	5.3
Placements from banks and other financial institutions	240,440	1.1	80,119	0.4
Debt securities issued	2,888,904	12.6	681,686	3.5
<b>Total</b>	<b>22,837,867</b>	<b>100.0</b>	<b>19,530,998</b>	<b>100.0</b>



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 1. Interest Expense on Deposits from Customers

The following table sets forth the average balance, interest expense and average cost for each of the components of the Bank's deposits from customers:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2016			For the year ended 31 December 2015		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
<b>Corporate deposits</b>						
Demand	75,399,260	679,883	0.90	69,327,924	658,416	0.95
Time	270,713,730	9,451,648	3.49	196,918,219	7,897,192	4.01
Sub-total	346,112,990	10,131,531	2.93	266,246,143	8,555,608	3.21
<b>Personal deposits</b>						
Demand	13,331,088	55,227	0.41	10,678,935	50,308	0.47
Time	106,547,443	3,862,167	3.62	94,439,748	3,544,305	3.75
Sub-total	119,878,531	3,917,394	3.27	105,118,683	3,594,613	3.42
<b>Total deposits from customers</b>	<b>465,991,521</b>	<b>14,048,925</b>	<b>3.01</b>	<b>371,364,826</b>	<b>12,150,221</b>	<b>3.27</b>

Interest expense on deposits from customers increased by 15.6% from RMB12.150 billion for the year of 2015 to RMB14.049 billion for the year of 2016, primarily due to the continued growth of the deposit business of the Bank.

### 2. Interest Expense on Deposits from Banks and Other Financial Institutions

Interest expense on deposits from banks and other financial institutions decreased by 36.2% from RMB5.575 billion for the year of 2015 to RMB3.559 billion for the year of 2016, primarily due to the decrease in the average balance and cost.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### 3. *Interest Expense on Financial Assets Sold under Repurchase Agreements*

Interest expense on financial assets sold under repurchase decreased by 63.9% from RMB1,035 million for the year of 2015 to RMB373 million for the year of 2016, primarily due to the significant decrease in the average balance of financial assets sold under repurchase agreements.

### 4. *Interest Expense on Placements from Banks and Other Financial Institutions*

Interest expense on placements from banks and other financial institutions increased by 200.1% from RMB80.12 million for the year of 2015 to RMB240 million for the year of 2016, mainly due to the increase in the average balance of placements from banks and other financial institutions.

### 5. *Interest Expense on Debt Securities Issued*

In 2016, the interest expense on the debt securities issued by the Bank amounted to RMB2.889 billion, representing a significant increase of RMB2.207 billion as compared to that in the same period of last year, which was mainly due to the issuance of interbank deposits with a nominal value of RMB140.020 billion in 2016.

#### **5.4.1.4 Net Interest Spread and Net Interest Margin**

Net interest spread is the difference between the average yield on the average balance of the total interest-earning assets and the average cost of the average balance of the total interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets.

Net interest spread of the Bank decreased by 0.35% from 2.00% for the year of 2015 to 1.65% for the year of 2016, and the net interest margin of the Bank decreased from 2.14% for the year of 2015 to 1.75% for the year of 2016, primarily due to the decrease in the average yield on assets, and detailed reasons are: (i) the yield on financial investments and loans and advances to customers which have a higher yield than other interest-earning assets decreased; and (ii) the return rate of deposits with banks and other financial institutions and financial assets held under resale agreements significantly decreased as compared with the same period of last year, leading to a decrease in average yield on interest-earning assets compared to the year of 2015.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.1.5 Non-interest Income

#### 1. Net Fee and Commission Income

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2016	2015	Change in amount	Rate of Change (%)
Fee and commission income				
Agency and custody services fees	1,930,858	1,146,861	783,997	68.4
Settlement and clearing services fees	156,658	175,124	(18,466)	(10.5)
Bank card services fees	34,387	28,230	6,157	21.8
Fee and commission expense	(207,996)	(146,026)	(61,970)	42.4
<b>Net fee and commission income</b>	<b>1,913,907</b>	<b>1,204,189</b>	<b>709,718</b>	<b>58.9</b>

The Bank's net fee and commission income increased from RMB1.204 billion for the year of 2015 to RMB1.914 million for the year of 2016. The increase in fee and commission income was due to the changes in income structure and the growth of emerging businesses.

Fee and commission expense of the Bank increased from RMB146 million for the year of 2015 to RMB208 million for the year of 2016, primarily due to an increase of international interbank settlement business, a significant increase in trading volume of bond investment business and payment of clearing fees to the central bank.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 2. Net Trading Gains/(Losses)

In 2016, the gains from the financial assets at fair value through profit or loss and derivative financial instruments amounted to RMB191 million, which mainly comprises of the gains from the change in fair value arising from derivative financial instruments held by the bank at the end of the period.

### 3. Net Gains Arising from Financial Investments

In 2016, the net gains arising from investments amounted to RMB892 million, representing an increase of 36.5% as compared with the same period in 2015. This was mainly because the Bank seized the opportunities of market fluctuations and benefited from selling the bonds with floating profits held in the account during in 2016.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2016	2015	Change in amount	Rate of change (%)
Dividends from available-for-sale equity investments	1,120	440	680	154.5
Net gains on disposal of available-for-sale financial assets	891,097	653,070	238,027	36.4
<b>Total</b>	<b>892,217</b>	<b>653,510</b>	<b>238,707</b>	<b>36.5</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.1.6 Operating Expenses

In 2016, the operating expense of the Bank amounted to RMB3.731 billion, representing a year-on-year decrease of RMB372 million or 9.1%.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2016	2015	Change in amount	Rate of change (%)
Staff costs	1,934,535	1,652,345	282,190	17.1
Tax and surcharges	618,822	1,401,267	(782,445)	(55.8)
Depreciation and amortisation	328,020	306,746	21,274	6.9
Rental and property management expenses	215,007	189,863	25,144	13.2
Office expenses	298,349	250,935	47,414	18.9
Other general and administrative expenses	335,865	301,006	34,859	11.6
<b>Total operating expenses</b>	<b>3,730,598</b>	<b>4,102,162</b>	<b>(371,564)</b>	<b>(9.1)</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 1. Staff Costs

The following table sets forth the principal components of the staff costs of the Bank for the years indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2016	2015	Change in amount	Rate of change (%)
– Salaries, bonuses and allowances	1,442,776	1,209,652	233,124	19.3
– Pension and annuity	193,888	172,165	21,723	12.6
– Other social insurance	133,225	120,759	12,466	10.3
– Housing allowances	74,377	66,796	7,581	11.3
– Supplementary retirement benefits	3,268	12,312	(9,044)	(73.5)
– Others	87,001	70,661	16,340	23.1
<b>Total staff costs</b>	<b>1,934,535</b>	<b>1,652,345</b>	<b>282,190</b>	<b>17.1</b>

In 2016, total staff costs of the Bank amounted to RMB1,935 million, representing a year-on-year increase of RMB282 million or 17.1%, primarily due to an increase in the number of staff of the Bank.

### 2. Tax and Surcharges

The business taxes and surcharges decreased by 55.8% from RMB1,401 million in the year of 2015 to RMB619 million for the year of 2016, mainly due to the replacement of business tax with value-added tax for the banking industry effective from 1 May 2016.

### 3. Office Expenses, Rental and Property Management Expenses

Office expenses, rental and property management expenses mainly include office supplies, property rents, maintenance fees for electronic devices, security fees, conference fees and postal, telecom and printing fees. Office expenses, rental and property management expenses for the year of 2016 and 2015 were RMB513 million and RMB441 million, respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 4. Depreciation and Amortisation

Depreciation and amortisation increased by 6.9% from RMB307 million for the year of 2015 to RMB328 million for the year of 2016. The increase in depreciation and amortisation was primarily due to the increase in the depreciation of fixed assets resulting from expanded properties and equipment and the increase in the long-term prepaid expenses of the Bank, in particular, the renovation costs of leased properties and the expenses for opening operation outlets.

### 5. Other General and Administrative Expenses

Other general and administrative expense increased by 11.6% from RMB301 million in 2015 to RMB336 million in 2016.

#### 5.4.1.7 Impairment Losses on Assets

The following table sets forth the principal components of impairment losses on assets of the Bank for the years indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2016	2015	Change in amount	Rate of change (%)
Loans and advances to customers	2,744,374	1,416,953	1,327,421	93.7
Loans and receivables	646,000	543,000	103,000	19.0
Others	285,037	(4,576)	289,613	N/A
<b>Total</b>	<b>3,675,411</b>	<b>1,955,377</b>	<b>1,720,034</b>	<b>88.0</b>

#### 5.4.1.8 Income Tax Expense

During the year of 2016, income tax expense of the Bank amounted to RMB1,830 million, representing a decrease of RMB73.22 million or 3.8% compared with the previous year. The effective tax rate of the Bank was 21.01%, representing a decrease of 0.02% compared with the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.2 Analysis of the Statement of Financial Position

#### 5.4.2.1 Assets

Total assets of the Bank as at 31 December 2016 and 2015 were RMB905.483 billion and RMB701.629 billion, respectively. The principal components of our assets are (i) loans and advances to customers, (ii) financial investments, (iii) deposits with banks and other financial institutions, and (iv) cash and deposits with central bank, which accounted for 25.3%, 51.2%, 10.0% and 7.9%, respectively, of total assets of the Bank as at 31 December 2016. The following table sets forth the balances of principal components of total assets of the Bank as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
<b>Assets</b>				
Gross loans and advances to customers	235,416,650	26.0	195,460,365	27.9
Provision for impairment losses	(6,535,918)	(0.7)	(3,928,630)	(0.6)
Net loans and advances to customers	228,880,732	25.3	191,531,735	27.3
Financial investments <sup>(1)</sup>	463,365,698	51.2	313,629,383	44.7
Deposits with banks and other financial institutions	90,789,790	10.0	84,618,382	12.1
Cash and deposits with central bank	71,375,747	7.9	63,787,726	9.1
Financial assets held under resale agreements	16,039,394	1.8	32,252,183	4.6
Placements with banks and other financial Institutions	21,138,110	2.3	1,017,289	0.1
Financial assets at fair value through profit or loss	–	–	1,462,016	0.2
Derivative financial assets	276,546	0.0	–	–
Other assets <sup>(2)</sup>	13,616,630	1.5	13,329,786	1.9
<b>Total assets</b>	<b>905,482,647</b>	<b>100.0</b>	<b>701,628,500</b>	<b>100.0</b>

Notes:

- (1) Includes held-to-maturity investments, receivables and available-for-sale financial assets, but excludes financial assets at fair value through profit or loss.
- (2) Includes interest receivables, property and equipment, other receivables, deferred income tax assets and other assets.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Total assets of the Bank increased by 29.1% from RMB701.629 billion as at 31 December 2015 to RMB905.483 billion as at 31 December 2016. The growth in total assets of the Bank from 31 December 2015 to 31 December 2016 was largely the result of the stable and sound economic and financial situation as well as the implementation of the Bank's cross-region operations, the rapid growth of our customer base and various business lines, and the increase in financial investments and loans and advances to customers.

### 1. Loans and Advances to Customers

The total loans and advances to customers made by the Bank as of 31 December 2016 amounted to RMB235.417 billion with an increase of 20.4% compared with the end of the previous year. The total loans and advances to customers accounted for 26.0% of total assets with a decrease of 1.9% compared with the end of the previous year.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
Corporate loans				
– Corporate loans	223,598,360	95.0	188,488,441	96.5
– Discounted bills	3,657,876	1.6	74,860	0.0
Personal loans				
– Residential mortgage	4,519,168	1.9	4,024,944	2.1
– Personal consumption loans	2,502,220	1.1	1,255,590	0.6
– Credit cards	523,837	0.2	634,569	0.3
– Personal business loans	534,159	0.2	893,651	0.5
– Others	81,030	0.0	88,310	0.0
<b>Total loans and advances to customers</b>	<b>235,416,650</b>	<b>100.0</b>	<b>195,460,365</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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The loans and advances to customers made by the Bank consist mainly of corporate loans (including discounted bills) and personal loans. Corporate loans constitute the largest component of the Bank's loan portfolio. The Bank's corporate loans (including discounted bills) as at 31 December 2016 and 31 December 2015 amounted to RMB227.256 billion and RMB188.563 billion, respectively, and accounted for 96.6% and 96.5%, respectively, of total loans and advances to customers made by the Bank.

The corporate loans (including discounted bills) of the Bank increased by 20.5% from RMB188.563 billion as at 31 December 2015 to RMB227.256 billion as at 31 December 2016, mainly attributable to (i) the Bank's continuous focus on extending loans to enterprises in key industries, such as the wholesale and retail industry and manufacturing industry; and (ii) increases in the relevant loan balance as a result of the Bank's continuous efforts to strengthen the business cooperation with key quality corporate clients.

The personal loans of the Bank mainly include residential mortgage, personal business loans, credit cards, personal business loans and other personal loans. The balance of personal loans amounted to RMB8.160 billion, representing an increase of RMB1.263 billion or 18.3% when compared to that at the end of the previous year, and accounted for 3.4% of total loans and advances to customers. Among personal loans, residential mortgage increased by RMB494 million or 12.3% when compared to that at the end of the previous year, mainly driven by the demand from the personal residential mortgage loan market; and personal consumption loans increased by RMB1.246 billion or 99.3% when compared to that at the end of the previous year. As a result of China's economic development and the changes in people's spending preference, the Bank increased its efforts in marketing and granting personal consumption loans, thereby driving the rapid growth of personal consumption loans.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 1) Loans by collateral

As at 31 December 2016 and 31 December 2015, loans secured by mortgages, pledges or guarantees, in aggregate, represented 91.2% and 90.9% of total loans and advances to customers. If a loan is secured by more than one form of collateral, the entire amount of such loan is allocated to the category representing the primary form of collateral. The following table sets forth the distribution of loans and advances to customers by collateral type as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
Loans secured by mortgages loans	101,776,176	43.2	95,958,742	49.1
Loans secured by pledges	19,358,290	8.2	15,013,506	7.7
Guaranteed loans	93,531,633	39.8	66,621,901	34.1
Unsecured loans	20,750,551	8.8	17,866,216	9.1
<b>Total loans and advances to customers</b>	<b>235,416,650</b>	<b>100.0</b>	<b>195,460,365</b>	<b>100.0</b>

The structure of collaterals of the Bank's loans and advances to customers is stable, and the Bank's capability of mitigating risks is solid. As at 31 December 2016, the balance of loans secured by mortgages, pledges and guarantee amounted to RMB214.666 billion, representing an increase of RMB37.072 billion or 20.9% compared with that at the end of the previous year, accounting for 91.2% of total loans and advances to customers which percentage was higher than that at the end of the previous year; the balance of unsecured loans was RMB20.751 billion, representing an increase of RMB2.884 billion when compared with that at the end of the previous year, accounting for 8.8% of total loans and advances to customers which percentage was lower than that at the end of the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 2) Changes in provision for impairment on loans and advances to customers

The following table sets forth the changes in the provision for impairment on loans and advances to customers for the periods indicated:

	As at 31 December 2016				As at 31 December 2015			
	Provision for impairment on loans and advances which are collectively assessed	Provision for impaired loans and advances – which are collectively assessed	Provision for impaired loans and advances – which are individually assessed	Total	Provision for impairment on loans and advances which are collectively assessed	Provision for impaired loans and advances – which are collectively assessed	Provision for impaired loans and advances – which are individually assessed	Total
Balance as at the beginning of the year	3,612,734	29,142	286,754	3,928,630	2,380,044	53,000	264,591	2,697,635
Charge for the year	1,418,847	86,892	2,000,914	3,506,653	1,960,475	27,526	351,375	2,339,376
Release for the year	(651,681)	(13,186)	(97,412)	(762,279)	(517,785)	(37,068)	(157,570)	(712,423)
Disposals for the year	-	-	-	-	(210,000)	-	-	(210,000)
Unwinding of discount	-	-	(43,380)	(43,380)	-	-	(26,074)	(26,074)
Write-offs for the year	-	(281)	(97,297)	(97,578)	-	(14,316)	(151,000)	(165,316)
Recoveries for the year	-	22	3,850	3,872	-	-	5,432	5,432
<b>Balance as at the end of the year</b>	<b>4,379,900</b>	<b>102,589</b>	<b>2,053,429</b>	<b>6,535,918</b>	<b>3,612,734</b>	<b>29,142</b>	<b>286,754</b>	<b>3,928,630</b>

Provision for impairments on loans and advances to customers increased by 66.4% from RMB3,929 million as of 31 December 2015 to RMB6,536 million as of 31 December 2016, mainly because the Bank properly increased the loan provision ratio as a result of changes in the macro-economic conditions and the relevant requirements of the regulatory authorities.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 2. Financial Investments

As of 31 December 2016 and 31 December 2015, the respective financial investments (including loans and receivables, available-for-sale financial assets and held-to-maturity investments, but excluding financial assets at fair value through profit or loss) of the Bank amounted to RMB463,366 million and RMB313,629 million, representing 51.2% and 44.7% of total assets of the Bank, respectively.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
<b>Available-for-sale financial assets</b>	46,328,907	10.0	27,359,926	8.7
– Bonds issued by policy banks	13,740,574	3.0	20,186,078	6.4
– Government bonds	25,235,064	5.4	5,144,025	1.6
– Bonds issued by banks and other financial institutions	404,796	0.1	550,447	0.2
– Corporate bonds	6,564,448	1.4	1,203,451	0.4
– Equity investment	384,025	0.1	275,925	0.1
<b>Held-to-maturity investments</b>	171,504,761	37.0	51,761,238	16.5
– Bonds issued by policy banks	65,800,264	14.2	30,504,007	9.7
– Government bonds	75,012,016	16.2	14,188,964	4.5
– Bonds issued by banks and other financial institutions	29,766,124	6.4	3,348,001	1.1
– Corporate bonds	926,357	0.2	3,720,266	1.2
<b>Loans and receivables</b>	245,532,030	53.0	234,508,219	74.8
– Investment management products managed by securities companies	156,798,192	33.9	157,543,148	50.3
– Investment management products under trust scheme	69,940,838	15.1	54,968,071	17.5
– Wealth management products issued by financial institutions	20,072,000	4.3	22,630,000	7.2
Less: Provision for loans and receivables	(1,279,000)	(0.3)	(633,000)	(0.2)
<b>Total</b>	<b>463,365,698</b>	<b>100.0</b>	<b>313,629,383</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The total financial investments of the Bank increased by 47.7% from RMB313,629 million as of 31 December 2015 to RMB463,366 million as of 31 December 2016. Available-for-sale investments increased by RMB18,969 million, compared to the number recorded at the end of the previous year. Held-to-maturity investments increased by RMB119.744 billion as compared with that at the end of the previous year. This was mainly due to increase in the liquidity reserves of the Bank caused by the increase in the Bank's holding of government bonds and bonds issued by policy banks which are of high liquidity and low risks. Financial investments in relation to loans and receivables rose by RMB11,024 million compared with that at the end of the previous year, mainly attributable to the continuous increase in the Bank's holding of asset management plans and investments in trust beneficiary rights.

### 2.1 Changes in the provision for investments classified as receivables

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016	As at 31 December 2015
Balance at the beginning of the year	(633,000)	(90,000)
Provision for the year	(646,000)	(543,000)
<b>Balance as at the end of the year</b>	<b>(1,279,000)</b>	<b>(633,000)</b>

### 5.4.2.2 Liabilities

As of 31 December 2016 and 31 December 2015, the total liabilities of the Bank were RMB859,108 million and RMB659,914 million, respectively. The Bank's liabilities mainly consisted of (i) deposits from customers; (ii) deposits from banks and other financial institutions; (iii) debt securities issued; and (iv) borrowings from central bank, accounting for 48.3%, 16.7%, 10.2% and 13.8%, respectively, with respect to the Bank's total liabilities as of 31 December 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table sets forth the components of the Bank's total liabilities for the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
Borrowings from central bank	118,800,000	13.8	6,800,000	1.0
Deposits from customers	415,246,159	48.3	402,379,086	61.0
Deposits from banks and other financial institutions	143,378,530	16.7	100,617,153	15.2
Derivative financial liabilities	14,206	0.0	–	–
Financial assets sold under repurchase agreements	40,285,591	4.7	47,085,568	7.1
Debt securities issued	87,289,181	10.2	78,485,436	11.9
Placements from banks and other financial institutions	38,940,901	4.5	11,370,469	1.7
Other liabilities <sup>(1)</sup>	15,153,453	1.8	13,175,835	2.1
<b>Total</b>	<b>859,108,021</b>	<b>100.0</b>	<b>659,913,547</b>	<b>100.0</b>

Note:

- (1) Including interest payable, amounts in settlement accounts, staff's remuneration payable, deferred income, tax payable, amounts in dormant accounts and other liabilities.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 1. Deposits from Customers

The Bank provides demand and time deposit products to corporate and personal customers. The following table sets forth the Bank's deposits from customers, and product types as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
<b>Corporate deposits</b>				
Demand deposits	74,575,104	17.9	72,780,720	18.1
Time deposits	165,133,167	39.8	168,423,885	41.9
<b>Sub-total</b>	239,708,271	57.7	241,204,605	60.0
<b>Personal deposits</b>				
Demand deposits	14,398,743	3.5	11,771,895	2.9
Time deposits	111,842,098	26.9	96,685,647	24.0
<b>Sub-total</b>	126,240,841	30.4	108,457,542	26.9
Other deposit <sup>(1)</sup>	49,297,047	11.9	52,716,939	13.1
<b>Total</b>	415,246,159	100.0	402,379,086	100.0

Note:

(1) Mainly including pledged deposits.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As of 31 December 2016, the Bank's total deposits from customers amounted to RMB415,246 million, with an increase of RMB12,867 million or 3.2% as compared with the number recorded at the end of the previous year. Total deposits from customers accounted for 48.3% with respect to the total liabilities, representing a decrease of 12.7% as compared with the end of the previous year.

In 2016, the Bank's deposits from customers maintained a steady growth, mainly due to an increase in personal deposits, of which demand deposits and time deposits increased by 22.3% and 15.7%, respectively as compared with the end of the previous year. This was primarily because the Bank had a considerable influence in the local market and the expansion of outlets as well as optimised channels helped attract more customers.

### 2. Debt Securities Issued

The following table sets forth the components of the Bank's debt securities issued for the dates indicated:

	As at 31 December 2016 Amount	As at 31 December 2015 Amount
(Expressed in thousands of Renminbi, unless otherwise stated)		
Subordinated fixed rate debts maturing in November 2021	–	900,000
Tier 2 capital bond with fixed rate maturing in May 2024	2,200,000	2,200,000
Tier 2 capital bond with fixed rate maturing in December 2025	10,000,000	10,000,000
Financial fixed rate bonds maturing in August 2019	5,000,000	–
Financial fixed rate bonds maturing in August 2021	2,000,000	–
Interbank certificates of deposit issued	68,089,181	65,385,436
<b>Total</b>	<b>87,289,181</b>	<b>78,485,436</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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The Bank issued subordinated bonds of commercial banks in the aggregate of RMB900 million in the national inter-bank bond market on 3 November 2011. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 6.5%. Interest on such bonds shall be paid once per year. Upon approval by the CBRC, the Bank could choose to redeem the current bond in a lump sum at a whole or at a portion per the face value on the last day of the fifth interest calculating year for such bonds. The Bank has redeemed such bonds on 4 November 2016.

The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB2,200 million in the national inter-bank bond market on 28 May 2014. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 6.18%. Interest on such bonds shall be paid once per year. Upon approval by the CBRC, the Bank could choose to redeem the current bond in a lump sum at a whole or at a portion per the face value on the last day of the fifth interest calculating year for such bonds.

The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB10 billion in the national inter-bank bond market on 4 December 2015. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 4.57%. Interest on such bonds shall be paid once per year. Upon approval by the CBRC, the Bank could choose to redeem the current bond in a lump sum at a whole or at a portion per the face value on the last day of the fifth interest calculating year for such bonds.

The Bank issued financial fixed rate bonds in the aggregate of RMB5 billion on 26 August 2016 with the term of maturity of 3 years and an annual coupon rate of 3.00%.

The Bank issued financial fixed rate bonds in the aggregate of RMB2 billion on 26 August 2016 with the term of maturity of 5 years and an annual coupon rate of 3.10%.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In 2016, the Bank in total issued the fixed-rate interbank certificates of deposit with a nominal value of RMB137.02 billion with the coupon rate of 2.55% to 4.25% with one-off interest payment on a term all within one year. It also issued the floating rate interbank certificates of deposit with a nominal value of RMB3.00 billion with the coupon rate of 3.26%. The interest will be paid on a quarterly basis, and all the maturities shall be within three years.

As of 31 December 2016, the balance of interbank certificates of deposit issued by the Bank was RMB68,089 million.

### 5.4.2.3 Equity

The following table sets forth the components of the equity of the Bank as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
Share capital	5,796,680	12.5	5,796,680	13.9
Capital reserve	11,855,505	25.5	11,855,505	28.4
Surplus reserve	4,666,968	10.1	3,893,846	9.3
General reserve	9,267,100	20.0	6,176,638	14.8
Fair value reserve	(92,044)	(0.2)	623,163	1.5
Deficit on remeasurement of net defined benefit liabilities	(5,468)	(0.0)	(5,126)	(0.0)
Retained earnings	14,305,688	30.8	12,927,822	31.0
Non-controlling interests	580,197	1.3	446,425	1.1
<b>Total equity</b>	<b>46,374,626</b>	<b>100.0</b>	<b>41,714,953</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.3 Loan quality analysis

#### 5.4.3.1 Breakdown of loans by the five-category classification

##### *Breakdown of loans by the five-category classification*

For the Bank, the non-performing loans are classified as substandard, doubtful and loss. As at 31 December 2016, the non-performing loans recorded by the Bank amounted to RMB4,106 million, and the total amount of the Bank's provision for impairment on loans was RMB6,536 million. The following table sets forth the distribution of the Bank's loans and advances to customers by the five-category loan classification as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2016		31 December 2015	
	Amount	% of total	Amount	% of total
Normal	225,793,939	95.9	191,852,436	98.2
Special mention	5,516,390	2.3	2,793,502	1.4
Substandard	3,915,006	1.7	630,615	0.3
Doubtful	171,128	0.1	159,959	0.1
Loss	20,187	0.0	23,853	0.0
<b>Total loans and advance to customers</b>	<b>235,416,650</b>	<b>100.0</b>	<b>195,460,365</b>	<b>100.0</b>
<b>Non-performing loan</b>	<b>4,106,321</b>	<b>1.74</b>	<b>814,427</b>	<b>0.42</b>

As of 31 December 2016 and 31 December 2015, the non-performing loan ratios of the Bank's total loan portfolio were 1.74% and 0.42%, respectively. The non-performing loans of the Bank concentrated in the manufacturing industry and wholesale and retail industry, mainly due to the concentration of credit risks in the industries with excess capacity in Northeast China.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.3.2 Concentration of loans

#### 1. Concentration by Industry and Distribution of Non-performing Loans

Corporate loans consist of loans to customers in a broad range of industries. The following table sets forth the breakdown of loans and non-performing loans by the industry as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2016				31 December 2015			
	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)
Wholesale and retail	73,940,527	31.4	497,053	0.67	49,379,811	25.4	91,029	0.18
Manufacturing	36,474,375	15.5	2,827,607	7.75	32,235,242	16.5	415,424	1.29
Renting and business activities	34,912,668	14.8	–	–	30,560,093	15.6	–	–
Real estate	30,306,590	12.9	309,062	1.02	27,733,878	14.2	129,812	0.47
Construction	7,430,303	3.2	303,900	4.09	9,639,581	4.9	12,000	0.12
Public administration and social organisation	398,000	0.2	–	–	3,734,860	1.9	–	–
Transportation, storage and postal services	9,880,743	4.2	2,000	0.02	6,961,097	3.6	26,000	0.37
Production and supply of electric power, heat, gas and water	4,315,242	1.8	–	–	3,371,205	1.7	–	–
Mining	2,183,200	0.9	–	–	3,969,500	2.0	–	–
Culture, sports and entertainment	2,876,880	1.2	–	–	1,936,105	1.0	–	–
Accommodation and catering	5,622,820	2.4	8,820	0.16	6,164,209	3.2	43,859	0.71
Agriculture, forestry, animal husbandry and fishery	2,098,825	0.9	47,500	2.26	1,615,558	0.8	34,000	2.10
Household, repair and other services	3,045,395	1.3	–	–	2,598,400	1.3	30,000	1.15
Others	10,112,792	4.3	2,300	0.02	8,588,902	4.4	2,300	0.03
Discounted bills	3,657,876	1.6	–	–	74,860	0.0	–	–
Personal loans	8,160,414	3.4	108,079	1.32	6,897,064	3.5	30,003	0.44
<b>Total</b>	<b>235,416,650</b>	<b>100.0</b>	<b>4,106,321</b>	<b>1.74</b>	<b>195,460,365</b>	<b>100.0</b>	<b>814,427</b>	<b>0.42</b>

Note: Non-performing loan ratio of an industry is calculated by dividing the balance of non-performing loans of the industry by the balance of loans granted to the industry.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As of 31 December 2016, loans provided to customers in the industries of (i) wholesale and retail, (ii) manufacturing, (iii) renting and commercial services and (iv) real estate represented the largest components of the Bank's corporate loans. As of 31 December 2016 and 31 December 2015, the balance of loans provided to the corporate customers in the four industries mentioned above were RMB175,634 million and RMB139,909 million, respectively, accounting for 74.6% and 71.7%, respectively, with respect to the Bank's loans and advances to customers. The wholesale and retail industry and the renting and commercial services industry experienced a more increase, by the amounts of RMB24,561 million and RMB4,352 million and the percentages of 49.7% and 14.2%, respectively. The Bank paid close attention to the relevant industry loan portfolio and gradually optimised the industry structure of loans.

### 2. Concentration of Borrowers

Loans to the ten largest single borrowers

The following table sets forth the borrowing amounts of the ten largest single borrowers as at 31 December 2016. As of the same date, all such loans were classified as pass loans.

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2016		
	Industry involved	Amount	% of the total
<b>Customer</b>			
Customer A	Wholesale and retail	3,900,000	1.66
Customer B	Real estate	3,900,000	1.66
Customer C	Real estate	3,600,000	1.53
Customer D	Real estate	3,200,000	1.36
Customer E	Manufacturing	2,868,000	1.22
Customer F	Transportation, storage and postal services	2,500,000	1.06
Customer G	Manufacturing	2,496,862	1.06
Customer H	Wholesale and retail	2,470,000	1.05
Customer I	Renting and business services	2,160,000	0.92
Customer J	Transportation, storage and postal services	2,100,000	0.89

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 3. Distribution of Non-performing Loans by Product Type

The following table sets forth the loans and non-performing loans by product type as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2016			31 December 2015		
	Loan amount	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	Non-performing loan amount	Non-performing loan ratio (%)
Corporate loans	227,256,236	3,998,242	1.76	188,563,301	784,424	0.42
Short-term loans	93,534,756	3,781,992	4.04	76,623,808	658,825	0.86
Medium and long term loans	130,063,604	216,250	0.17	111,864,633	125,599	0.11
Discounted bills	3,657,876	–	–	74,860	–	–
Personal loans	8,160,414	108,079	1.32	6,897,064	30,003	0.44
Residential mortgage	4,519,168	52,262	1.16	4,024,944	15,164	0.38
Personal business loans	534,159	28,506	5.34	893,651	–	–
Personal consumption loans	2,502,220	11,500	0.46	1,255,590	–	–
Credit card overdrawn	523,837	15,711	3.00	634,569	14,839	2.34
Other	81,030	100	0.12	88,310	–	–
<b>Total</b>	<b>235,416,650</b>	<b>4,106,321</b>	<b>1.74</b>	<b>195,460,365</b>	<b>814,427</b>	<b>0.42</b>

The non-performing loan ratio, defined as non-performing loans divided by the Bank's total loans and advances to customers, was 1.74% as of 31 December 2016 and 0.42% as of 31 December 2015.

As of 31 December 2016 and 31 December 2015, the non-performing loan ratio of the Bank's corporate loans (including discounted bills) was 1.76% and 0.42%, respectively.

As of 31 December 2016 and 31 December 2015, the non-performing loan ratio of the Bank's personal loans was 1.32% and 0.44%, respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 4. Overdue Loans and Advances to Customers

The following table sets forth the aging analysis of the Bank's overdue loans and advances to customers for the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2016		31 December 2015	
	Amount	% of total	Amount	% of total
Overdue within 3 months (inclusive)	2,261,976	36.7	476,100	45.3
Overdue more than 3 months to 1 year (inclusive)	3,333,890	54.1	401,284	38.2
Overdue more than 1 year and within 3 years (inclusive)	493,718	8.0	96,619	9.2
Overdue more than 3 years	76,751	1.2	76,915	7.3
<b>Total overdue loans and advances to customers</b>	<b>6,166,335</b>	<b>100.0</b>	<b>1,050,918</b>	<b>100.0</b>

Note: Overdue loans and advances to customers include credit card advances.

## 5.4.4 Segment information

### 5.4.4.1 Summary of Geographical Segment

The Bank is mainly operating within China. It has 18 branches in five provinces and municipalities directly under the Central Government. It has also established seven subsidiaries in Liaoning Province, Shanghai and Zhejiang Province.

(Expressed in thousands of Renminbi, unless otherwise stated)	Operating income				Non-current assets			
	As at 31 December				As at 31 December			
	2016		2015		2016		2015	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Northeast China	14,263,677	88.5	11,767,102	83.0	4,594,028	92.4	4,003,911	90.9
North China	1,247,406	7.7	2,100,290	14.8	353,087	7.1	369,930	8.4
Others	602,793	3.8	316,764	2.2	24,141	0.5	31,925	0.7
<b>Total</b>	<b>16,113,876</b>	<b>100.0</b>	<b>14,184,156</b>	<b>100.0</b>	<b>4,971,256</b>	<b>100.0</b>	<b>4,405,766</b>	<b>100.0</b>



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.4.2 Summary of Business Segment

The Bank manages its business by lines and geographical areas. Consistent with the way in which information is reported internally to the Bank's management for the purposes of resource allocation and performance assessment, the Bank defines the following reporting segments based on the operating segments:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December			
	2016		2015	
	Amount	% of total	Amount	% of total
<b>Operating revenue</b>				
Corporate banking	11,444,430	71.0	9,848,544	69.4
Personal banking	1,056,891	6.6	704,411	5.0
Treasury business	3,594,702	22.3	3,620,632	25.5
Others	17,853	0.1	10,569	0.1
<b>Total</b>	<b>16,113,876</b>	<b>100.0</b>	<b>14,184,156</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.5 Analysis of Off-balance Sheet Items

Credit commitments and other off-balance sheet items of the Bank mainly include bank acceptances, issued letters of credit, issued letters of guarantee, unused credit card commitments, operating lease commitments and capital commitments. Credit commitments constitute the major component of off-balance sheet items, and consist of bank acceptances issued letters of credit, issued letters of guarantees, and unused credit card commitments. Bank acceptances are commitments made to the payment for a bank draft issued by the Bank's customers. The letters of guarantees and the letters of credit are issued by the Bank to guarantee the customer's contractual performance for a third party. The following table sets forth the Bank's credit commitments, and other off-balance sheet items as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2016	31 December 2015
Unused credit card commitments	2,146,488	2,037,361
Guarantees, acceptances and letters of credit	152,442,135	144,883,187
Operating lease commitments	653,877	645,323
Capital commitments	1,489,017	1,900,897
Pledged assets	162,656,903	56,782,506
<b>Total</b>	<b>319,388,420</b>	<b>206,249,274</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.5 BUSINESS OVERVIEW

#### 5.5.1 Corporate Banking Business

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December		
	2016	2015	Rate of change (%)
External net interest income	5,276,840	5,733,876	(8.0)
Internal net interest income	4,641,628	2,959,541	56.8
<b>Net interest income</b>	<b>9,918,468</b>	<b>8,693,417</b>	<b>14.1</b>
<b>Net fee and commission income</b>	<b>1,493,971</b>	<b>1,144,084</b>	<b>30.6</b>
Other operating income	31,991	11,043	189.7
Impairment losses on assets	(2,965,388)	(1,402,394)	111.5
Operating expenses	(2,556,271)	(2,647,868)	(3.5)
– Depreciation and amortisation	(245,159)	(230,399)	6.4
– Others	(2,311,112)	(2,417,469)	(4.4)
<b>Profit before tax</b>	<b>5,922,771</b>	<b>5,798,282</b>	<b>2.1</b>
<b>Capital expenditure</b>	<b>668,133</b>	<b>742,606</b>	<b>(10.0)</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
(Expressed in thousands of Renminbi, unless otherwise stated)	As at	As at	Rate of change (%)
	31 December 2016	31 December 2015	
<b>Segment assets</b>	<b>271,909,537</b>	<b>228,513,606</b>	<b>19.0</b>
<b>Segment liabilities</b>	<b>294,518,492</b>	<b>299,438,476</b>	<b>(1.6)</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### 5.5.1.1 *Corporate Deposits*

Corporate deposits maintained a relatively steady growth. Under the pressure from the macro situation and regional economy, the Bank thoroughly promoted the strategy for customer development, extensively developed customer resources, consolidated its customer base, optimised its customer structure, continuously enhanced the innovation of the products of its corporate business, and deepened its cooperation with premium strategic customers, public utility customers and financial customers, which contributed to the continuing expansion of the scale of cash collection and agency settlement of customers. As at 31 December 2016, the balance of the Bank's corporate deposits amounted to RMB239.708 billion.

The Bank made every effort to develop itself into an “agency bank for public utilities with full functions” and continuously expanded its agency service coverage for public utilities. By 2016, the Bank had become an essential part of people's daily lives with its agency business covering areas important to people's livelihood, including supplies of water, electricity and gas, communication fees, cable TV, medical insurance, housing maintenance funds, provident funds and traffic, as well as improved the construction of various electronic banking channels, forming a comprehensive multi-channel system for public utilities collection and payment comprising online banking, television banking, mobile banking, WeChat banking, payment platform and text message platform.

According to the operation management department of the PBOC Shenyang branch, as at 31 December 2016, the balance of Renminbi corporate deposits with the Bank in Shenyang amounted to RMB136.07 billion, ranking the first in Shenyang area for consecutive years. The Renminbi corporate deposits with the Bank in Shenyang area had a market share of 17%, representing an increase of 0.61% compared to the market share at the end of the previous year.

### 5.5.1.2 Corporate Loans

The Bank adhered to a policy of extending loans in a prudent and appropriate manner. It effectively seized the opportunities brought by the transformation in the regional economic structure and optimised the allocation of its credit resources to respond to the economic development in the local region. As at 31 December 2016, the balance of the Bank's corporate loans (excluding discounted bills) amounted to RMB223.598 billion, representing a year-on-year growth of RMB35.11 billion or 18.6%.

First, the Bank seized the development opportunities brought by the coordinated development of the Beijing-Tianjin-Hebei region, construction of free trade zones and a new round of revitalising Northeast China. In particular, it actively responded to the nation's major strategies and key projects and continued optimising the direction and structure of loans. Second, with its firm footing in real economy, the Bank captured the opportunity of supply-side reform to increase the loans extended to strategic emerging industries and strongly support the development of modern services, FinTech and green finance. Third, the Bank actively supported the customers of public utilities by increasing the loans extended to customers in the industries of public utilities such as the supply of water, electricity and gas as well as customers in the industries of modern livelihood services covering culture, education and public health. Fourth, the Bank strictly implemented prudent policies in relation to housing loans by adhering to list-based management and mortgage of valid projects to effectively prevent industry risks. Fifth, the Bank further strengthened the risk management for industries with "high consumption and pollution and excessive capacity", and made a plan of reducing or even withholding loans to customers with excessive capacity, thereby further optimising its credit structure. Sixth, the Bank maintained stable credit asset quality. In particular, it strengthened its post-loan supervision, improved its warning system integrating the head office, the branches and sub-branches, fully carried out an industry risk detection and inspection of "reduce capacity, reduce inventory and reduce leverage", and established a creditor's rights committee, safeguarding the safety of its credit assets.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.5.2 Retail Banking

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December		Rate of change (%)
	2016	2015	
External net interest expense	(3,562,095)	(3,234,074)	10.1
Internal net interest income	4,208,432	3,871,214	8.7
<b>Net interest income</b>	<b>646,337</b>	<b>637,140</b>	<b>1.4</b>
<b>Net fee and commission income</b>	<b>408,906</b>	<b>65,031</b>	<b>528.8</b>
Other operating income	1,648	2,240	(26.4)
Impairment losses on assets	(64,023)	(9,983)	541.3
Operating expenses	(681,626)	(580,972)	17.3
– Depreciation and amortisation	(70,862)	(64,189)	10.4
– Others	(610,764)	(516,783)	18.2
<b>Profit before tax</b>	<b>311,242</b>	<b>113,456</b>	<b>174.3</b>
<b>Capital expenditure</b>	<b>193,121</b>	<b>206,891</b>	<b>(6.7)</b>
(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016	As at 31 December 2015	Rate of change (%)
<b>Segment assets</b>	<b>15,508,795</b>	<b>16,556,167</b>	<b>(6.3)</b>
<b>Segment liabilities</b>	<b>132,016,734</b>	<b>112,837,587</b>	<b>17.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### **5.5.2.1 Personal Deposits**

The Bank carried out in-depth marketing and leveraged the advantages of marketing portfolio including certificate of sizable deposits, Tenpay intelligent savings and salary distribution agency, in order to drive the growth of personal deposits. As at 31 December 2016, the balance of personal deposits amounted to RMB126.241 billion, representing an increase of RMB17.783 billion or 16.4% compared to the end of the previous year, of which the increase in the deposits in Shenyang amounted to RMB11.8 billion, representing a share of 31.2% of the total increase of the financial institutions in Shenyang. The Bank's increment in personal deposits ranked the first in Shenyang for six consecutive years, demonstrating a rapid growth.

### **5.5.2.2 Personal Loans**

The Bank strengthened its marketing and promotion of personal housing mortgage loans, sped up the granting of credit loans and facilitated the growth of retail customers through implementing various measures including a differentiating policy of personal housing mortgage and optimising business procedures. Meanwhile, the Bank accelerated innovation of personal loan products to meet customer needs and market development requirements as well as to promote the efficacy of customer structure and products. Personal loans (including personal housing mortgage loans, personal consumption loans, credit card and personal business loans) increased by RMB1.263 billion or 18.3% to RMB8.16 billion as compared to the end of the previous year, of which personal mortgage loans increased by RMB0.494 billion to RMB4.519 billion compared to the end of the previous year, personal consumption loans increased by RMB1.247 billion to RMB2.502 billion compared to the end of the previous year, and personal business loans decreased by RMB0.359 billion to RMB0.534 billion compared to the end of the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### 5.5.2.3 *Bank Cards*

Categories of the bank card products are increasingly diversified. The Bank cooperated with key customers to issue joint-name cards and developed a financial service focusing on individuals' whole life to drive the rapid growth in the number of cards issued. As at 31 December 2016, the Bank had issued 9,926,900 debit cards in total, representing an increase of 1,664,800 compared to the beginning of the year, with total expenditures of RMB22.207 billion.

### 5.5.2.4 *Wealth Management Business*

Adhering to a prudent investment philosophy, the Bank prudently managed its investment portfolio to ensure the safe and stable operation of its wealth management business. The Bank actively expanded its trading channels, diversified its product types, and constantly optimised its product functions, thereby achieving a steady improvement in its service quality and winning extensive recognition for its wealth management brand. As at 31 December 2016, the Bank offered a total of 687 tranches of wealth management products, amounting to RMB144.869 billion, with renewed balance of RMB60.072 billion, representing a year-on-year increase of 364 tranches and RMB95.232 billion. With an income of RMB414 million from intermediary business and 0.126 million wealth management customers, the Bank was awarded “the Wealth Management Institution with the Best Return” by the China Banking Association.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.5.3 Capital Business and Investment Banking

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December		Rate of change (%)
	2016	2015	
External net interest income	11,502,921	9,448,729	21.7
Internal net interest expense	(8,850,060)	(6,830,755)	29.6
<b>Net interest income</b>	<b>2,652,861</b>	<b>2,617,974</b>	<b>1.3</b>
<b>Net fee and commission income</b>	<b>11,030</b>	<b>(4,926)</b>	<b>(323.9)</b>
Net trading gains/(losses)	191,051	(71,645)	(366.7)
Net gains arising from investments	891,097	653,070	36.4
Net foreign exchange(losses)/gains	(151,337)	426,159	(135.5)
Impairment losses on assets	(646,000)	(543,000)	19.0
Operating expenses	(488,418)	(868,461)	(43.8)
– Depreciation and amortisation	(11,999)	(12,158)	(1.3)
– Others	(476,419)	(856,303)	(44.4)
<b>Profit before tax</b>	<b>2,460,284</b>	<b>2,209,171</b>	<b>11.4</b>
<b>Capital expenditure</b>	<b>32,700</b>	<b>39,188</b>	<b>(16.6)</b>
(Expressed in thousands of Renminbi, unless otherwise stated)	December 31 2016	December 31 2015	Rate of change (%)
<b>Segment assets</b>	<b>616,269,165</b>	<b>455,817,913</b>	<b>35.2</b>
<b>Segment liabilities</b>	<b>432,257,727</b>	<b>247,532,863</b>	<b>74.6</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### 5.5.3.1 Treasury Business

In 2016, the Bank timely adjusted its operation strategy for treasury business, enhanced the design and management of business diversification, orderly promoted the business expansion and customer development, and minimised the unfavourable impact caused by market risks, through strengthening its studies on the macro-economy, opining on the trend of market changes and analysing the impact of regulatory policies, in order to ensure a steady growth in the business scale and revenue of the Bank's treasury business. For the year ended 31 December 2016, the operating profit from the Bank's treasury business was RMB2.460 billion, increased by RMB251 million or 11.4% as compare with the end of last year.

#### 1. Money Market Transactions

The Bank continued to expand financing channels, analyse the trend of interest rate, and rationally arrange financial strategies. The Bank has established stable sources of capital by issuing certificates of interbank deposits. As at 31 December 2016, the balance of the Bank's issued certificates of interbank deposits was RMB68.089 billion, representing 7.9% of total liabilities of the Bank. As at the same date, the balance of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements was RMB222.605 billion, representing 25.9% of total liabilities of the Bank. The balance of deposits and placements with banks and other financial institutions and financial assets held under resale agreements was RMB127.967 billion, representing 14.1% of the total assets of the Bank.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 2. Investments in Securities and Other Financial Assets

In 2016, after analysing the factors such as macro-economy, policy and capital, the Bank reasonably formulated its investment strategies and improved the return on its asset portfolio. Firstly, the Bank leveraged on its membership of the underwriting syndicate for financial bonds of policy banks, actively carried out bond trades in the primary market, and therefore was awarded as the “Excellent Underwriter” by China Development Bank and Agricultural Development Bank of China. Meanwhile, the Bank carried out time-the-market bond trades by means including bilateral market making and direct offer, thereby realising favourable premium. Secondly, the Bank increased its investment in government bonds, to improve the profit margin benefiting the tax-free effect. Thirdly, the Bank property increased its investment in targeted assets management schemes and the beneficiary rights in trusts to effectively enhance the comprehensive revenue of assets and achieve an increasingly diversified asset structure.

#### 1) Securities investment by holding purpose

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016		As at 31 December 2015	
	Amount	Accounted for (%)	Amount	Accounted for (%)
Financial assets at fair value through profit or loss	–	–	1,462,016	0.5
Available-for-sale financial assets	46,328,907	10.0	27,359,926	8.7
Held-to-maturity investments	171,504,761	37.0	51,761,238	16.4
Loans and receivables	245,532,030	53.0	234,508,219	74.4
<b>Total</b>	<b>463,365,698</b>	<b>100.0</b>	<b>315,091,399</b>	<b>100.0</b>

As at 31 December 2016, available-for-sale financial assets held by the Bank increased by RMB18.969 billion compared to the end of the previous year, representing an increase of 1.3% as to the proportion to the total securities investment. Held-to-maturity investments increased by RMB119.744 billion compared to the end of the previous year, representing an increase of 20.6% as to the proportion to the total securities investment. Loans and receivables increased by RMB11.024 billion compared to the end of the previous year, representing a decrease of 21.4% as to the proportion to the total securities investment.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 2) Securities investment by remaining maturity

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016		As at 31 December 2015	
	Amount	Accounted for (%)	Amount	Accounted for (%)
Less than three months (inclusive)	83,529,054	18.0	63,120,171	20.0
Between three months and twelve months (inclusive)	202,460,809	43.7	124,962,440	39.7
Between one and five years (inclusive)	140,434,816	30.3	99,957,324	31.7
More than five years	36,941,019	8.0	27,051,464	8.6
<b>Total</b>	<b>463,365,698</b>	<b>100.0</b>	<b>315,091,399</b>	<b>100.0</b>

As at 31 December 2016, the Bank's securities investment with a remaining maturity of less than 12 months increased by RMB97.907 billion compared to the end of the previous year, representing an increase of 2.0% as to the proportion to the total securities investment.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 3) Government bonds held

As at 31 December 2016, the balance of the nominal value of the government bonds held by the Bank amounted to RMB79.394 billion. The table below sets out the top ten government bonds with the highest nominal value held by the Bank as at 31 December 2016:

Name of the bond (Expressed in thousands of Renminbi, unless otherwise stated)	Nominal value	Interest rate per annum (%)	Maturity date
16 Government Bond	21,649,000	2.51	19 May 2018
16 Government Bond	9,510,000	2.14	4 August 2017
16 Government Bond	6,370,000	2.43	28 July 2019
16 Government Bond	5,940,000	2.30	5 May 2017
16 Government Bond	4,340,000	2.10	3 November 2017
16 Government Bond	3,680,000	2.22	18 February 2017
09 Government Bond	3,050,000	3.44	17 September 2019
16 Government Bond	3,030,000	2.90	5 May 2026
16 Government Bond	2,400,000	2.55	28 January 2019
16 Government Bond	2,340,000	2.55	28 April 2019

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 4) Financial bonds held

As at 31 December 2016, the balance of nominal value of the financial bonds (mainly the financial bonds issued by policy banks) held by the Bank amounted to RMB109.797 billion. The table below sets out the top ten financial bonds with the highest nominal value held by the Bank as at 31 December 2016:

Name of the bond (Expressed in thousands of Renminbi, unless otherwise stated)	Nominal value	Interest rate per annum (%)	Maturity date
2016 Policy Financial Bonds	4,670,000	2.72	3 March 2019
2015 Policy Financial Bonds	4,410,000	3.74	10 September 2025
2016 Policy Financial Bonds	4,310,000	2.47	6 January 2017
2016 Policy Financial Bonds	3,900,000	2.63	6 April 2019
2016 Policy Financial Bonds	2,950,000	2.82	22 February 2019
2016 Policy Financial Bonds	2,560,000	2.77	6 January 2019
2015 Policy Financial Bonds	2,250,000	3.18	30 November 2018
2010 Policy Financial Bonds	2,000,000	4.00	4 November 2020
2016 Policy Financial Bonds	1,810,000	2.46	18 April 2017
2014 Policy Financial Bonds	1,740,000	4.83	14 May 2017

### 5.5.4 International Business

In 2016, all indicators of the Bank's international business demonstrated a steady growth. The international settlement amount reached to US\$16.4 billion, representing a year-on-year increase of 62%. The Bank realised a book profit of RMB500 million, representing a year-on-year increase of 85%. It also conducted financings of RMB14 billion and realised a revenue of RMB220 million, representing a year-on-year increase of 57%. The Bank was awarded the honour of "A Category Bank" on the implementation of exchange rate management requirements by the State Administration of Foreign Exchange.

Firstly, the Bank accelerated business innovation and product development in its international business and successfully established a trade and financial product system. By conducting innovations from various dimensions such as system, products, process, and personnel, the Bank introduced trade and financial products including domestic financing under the letter of credit, supply chain financing and domestic factoring. Through providing various product portfolio combining domestic and foreign currency, domestic and foreign trade, offshore and onshore, domestic and abroad, online and offline, the Bank established a series of comprehensive financial services system covering inbound and outbound settlement, financing, guarantee and cash management. Secondly, the Bank continued to improve its innovation of its international business in the free trade zones. Upon being admitted to the Shanghai free trade zone, the Bank introduced financial services such as free trade accounts, cross-border investment and financing, payment and settlement and capital transaction, thereby further expanding its business scope. Thirdly, the Bank vigorously built a cross-border financial services platform for individuals. In particular, the Bank innovatively launched services including visa drop-off, tax refund upon departure and online sales and settlement of foreign exchange, and provided one-stop individual cross-border financial services, thereby driving the development of the retail business of domestic and foreign currencies.

### 5.5.5 Distribution Channels

#### 5.5.5.1 Physical Outlets

As at 31 December 2016, the Bank operated businesses through its head office in Shenyang, three branch-level specialised institutions and 186 branches and sub-branches covering 18 cities including Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian and other cities in Liaoning province. These 18 cities are mostly located in economically developed regions such as Northeast China, the Bohai Rim and the Yangtze River Delta Economic Zone, which enjoy advantageous policies and huge market opportunities.

#### 5.5.5.2 Self-service Banking

The Bank's self-service banking facilities include ATMs, cash recycling systems, inquiry and payment machines and community smart terminals. In 2016, the Bank increased its investment in self-service devices, made proper adjustment to the proportion of different types of equipment, and enhanced the distributary effects of self-service, which provided its customers with 24-hour convenient and safe services, thereby improving the Bank's business profits. As at 31 December 2016, the Bank owned 2,141 self-service facilities, including 308 ATMs, 210 cash recycling systems, 105 inquiry and payment machines and 1,518 community smart terminals, providing its customers with services such as cash withdrawal, account inquiry, cash deposit, change of password and fund transfer. In 2016, approximately 7.14 million transactions were processed through the Bank's self-service banking facilities with a total transaction value of RMB12.9 billion.

#### 5.5.5.3 Electronic Banking

Adhering to the strategy of "steady development, innovation and expansion, serving public, being safe and convenient", the Bank focused on the needs of customers, adapted to the preference of the customers, and optimised its product functions and services. In 2016, the Bank optimised over 120 product functions and services, attracting another 320,000 customers for electronic banking. Meanwhile, the Bank actively promoted the business innovation and brand construction of electronic banking, implemented the construction of the systems including long-distance video banking and direct banking, implemented the nation-wide service hotline 95337, and therefore further enhanced its brand recognition and popularity.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### 1. *Online Banking*

#### 1) Corporate online banking

In response to the demands of corporate customers, the Bank continued enhancing its online services for corporate capital and actively improved the settlement efficiency and the comprehensive services. As at 31 December 2016, the Bank had 13,253 online banking corporate customers, representing an increase of 28% compared to the end of the previous year; RMB1,162.97 billion in the transaction value, representing an increase of 1% compared to the previous year; and 665,000 transactions, representing an increase of 31% as compared to the previous year.

#### 2) Personal Online Banking

In response to the needs of the individual customers, the Bank continuously improved the user experience for personal online banking, optimised the functions such as fast log-in, asset view and real-time fund transfer, diversified its utility payment service as many as over 10 items, connected itself to the online interbank settlement system of the PBOC, and offered immediate interbank fund transfer, all of which contributed to a higher success rate and more stability for fund transfers. As at 31 December 2016, the Bank had over 185,100 online banking personal customers, representing an increase of 61% compared to the end of the previous year; over 464,200 transactions for the year, representing an increase of 16% compared to the previous year; and RMB13.225 billion in the transaction value for the year, representing an increase of 26 % compared to the previous year.

### 2. *Mobile Banking*

The Bank continued to promote the upgrades of its mobile banking services and functions, brought in the functions such as Sheng Jing Bao and real-time transfer, simplified the operation process, and improved the users' experience, thereby driving the number of customers. As at 31 December 2016, the Bank had over 353,400 mobile banking customers, with around 1,472,400 transactions of a transaction value of RMB8,388 million in total for the year.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 3. Television Banking

Leveraging its first mover advantage of television banking services in Liaoning and Shenyang province, the Bank promoted the popularity and marketing of its television banking, carried out scenario demonstration in communities. By far the television services of the Bank has enabled over 30,000 families in Shenyang and Anshan to enjoy professional financial services just at home.

## 5.5.6 Subsidiaries

### 5.5.6.1 Investments in Subsidiaries

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2016	As at 31 December 2015
Shenyang Shenbei Fumin Rural Bank Co., Ltd. ("Shenyang Shenbei")	35,321	35,321
Shenyang Xinmin Fumin Rural Bank Co., Ltd. ("Shenyang Xinmin")	6,230	6,230
Shenyang Faku Fumin Rural Bank Co., Ltd. ("Shenyang Faku")	6,262	6,262
Shenyang Liaozhong Fumin Rural Bank Co., Ltd. ("Shenyang Liaozhong")	6,097	6,097
Ningbo Jiangbei Fumin Rural Bank Co., Ltd. ("Ningbo Jiangbei")	30,039	30,039
Shanghai Baoshan Fumin Rural Bank Co., Ltd. ("Shanghai Baoshan")	62,208	62,208
Shengjing Bank Consumer Finance Co., Ltd. ("Shengjing Consumer")	180,000	—
<b>Total</b>	<b>326,157</b>	<b>146,157</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As at 31 December 2016, background information of the subsidiaries is as follows:

	Date of incorporation	Place of incorporation, registration and operations	Registered capital (Expressed in thousands of Renminbi)	Percentage owned by the Bank	Business sector
Shenyang Shenbei	09/02/2009	Liaoning, China	150,000	20%	Banking
Shenyang Xinmin	25/06/2010	Liaoning, China	30,000	20%	Banking
Shenyang Faku	26/10/2010	Liaoning, China	30,000	20%	Banking
Shenyang Liaozhong	26/11/2010	Liaoning, China	30,000	20%	Banking
Ningbo Jiangbei	17/08/2011	Zhejiang, China	100,000	30%	Banking
Shanghai Baoshan	09/09/2011	Shanghai, China	150,000	40%	Banking
Shengjing Consumer	25/02/2016	Liaoning, China	300,000	60%	Consumption Finance

### 5.6 RISK MANAGEMENT

Major risks to which the Bank is exposed include credit risk, operational risk, market risk and liquidity risk. In 2016, when the economic and financial situations remained complicated and changing home and abroad, the Bank further advanced its prudent and stable strategy for risk management. In particular, the Bank adhered to the principles of “prudence and soundness, compliance with law, solid management and effective control”, strictly complied with the risk bottom line and continuously improved its comprehensive risk management system. The Bank also strengthened its study and analysis of policies and market, through proactive planning and management as well as emphasising on reasonable allocation of capital, gains and risks. Therefore, the Bank’s business lines operated steadily.

### 5.6.1 Credit Risk Management

Credit risk occurs when customers or counterparties are unable or unwilling to perform their obligations to the Bank. The Bank's credit risk mainly exists in the credit business and treasury business.

In 2016, when the credit risk poses increasing pressures at the time of economic downturn, the Bank adopted various measure in response. First, the Bank adhered to the principle of "solidifying the asset quality and preventing asset losses", further improved its risk control system and submitted the transactions involving large amounts of assets to the risk decision-making and review committee for collective consideration in accordance with regulatory requirements. Second, the Bank continued the construction of its risk management system. Starting with detection and prevention of credit risk, the Bank further improved its business management and operation process and strengthened its risk control measures, thereby standardising its risk management practice. Third, the Bank strengthened its proactive research of industries and policies, cautiously reviewed the region selection, customer segmentation and project screening, refined the strategic management of investment targets, emphasised on the risk control in key industries and areas, and adopted various risk control measures such as pledge, security and guarantee, thereby enhancing its ability to manage the risks in the asset business. Fourth, by implementing specialised inspections featuring credit risk and on-site supervisions, the Bank thoroughly carried out regulated operation and self-inspection for risk management, focused on key industries and issues, increasingly enhanced the effectiveness of its risk warning, timely spotted potential risks, and implemented risk control measures including supplementing with more assets, solidifying existing guarantee, and reducing the transaction size. Therefore, the exposures of risks were reduced, the Bank's asset quality was further improved, and the Bank became more capable of preventing and managing risks.

### 5.6.2 Operational Risk Management

Operational risk refers to the risk of loss that may incur due to inadequate or problematic internal procedures, personnel and information technology systems as well as certain external events, mainly including internal and external frauds, business interruption and failure of information technology systems.

The Bank paid close attention to the operational risk control and carried out a lot of work in 2016. First, the Bank continuously promoted the construction of operation risk management system, actively improved its rules on operational risk management, analysed the typical incidents of operational risk, summarised the key issues relating to operational risk and compiled a casebook on operational risk, thereby refining its operational risk management. Second, the Bank attached high importance to the effective improvement of the risk consciousness of its employees, made greater efforts to provide its employees with trainings on operational risk, and emphasised regulated business operation, in order to strengthen its overall ability of controlling and managing operational risk. Third, the Bank conducted regular detections and inspections on operational risk, monitored the key indicators of operational risk, and exerted caution in preventing potential and existing risks in key areas. As a result, the Bank did not experience any operational risk incident during 2016.

### 5.6.3 Market Risk Management

Market risk refers to the risk of losses that may be sustained by the Bank's on/off-balance sheet business as a result of unfavourable changes in market price, including interest rate, exchange rate, stock price and commodity price. It mainly includes interest rate risk and currency risk.

In 2016, facing the complicated and changing external environment, the Bank continuously strengthened its market risk management, proactively made a forecast of the macroscopic trends and market changes and conducted a quantitative analysis by using various risk management tools such as sensitivity analysis and exposure analysis. With a view to limiting the market risk within a tolerable scope, the Bank also placed a strict limit on its market risk and regularly carried out pressure testing to comprehensively identify, accurately quantify and continuously monitor the market risk in each business line.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### 5.6.3.1 Market Risk Management of Bank Accounts

#### 1. Interest Rate Risk Management

The interest rate risk of bank accounts arises primarily from re-pricing due to the maturity mismatch of the assets/liabilities business under the bank accounts. The Bank managed the interest rate risk of its bank accounts by proper allocation of maturities of assets and liabilities. Meanwhile, the Bank strengthened its limit management and continued monitoring and assessing risks of the interest rate market by using tools such as interest rate exposure analysis and sensitivity analysis. The Bank also simulated the stress test in the interest rate scenario based on the analysed data in order to formulate a corresponding emergency plan. In addition, the Bank reasonably utilised its pricing mechanism for internal fund transfer to timely adjust the capital pricing, strengthened its monitoring and management of the maturity gap of the deposits and loans with its branches and sub-branches, and optimised the maturity gap allocation of the interbank business under its head office, in order to improve its ability of controlling interest rate risk.

#### 2. Exchange Rate Risk Management

Exchange rate risk refers to the risk arising from the mismatch of the currency denominations between assets and liabilities. The Bank's exposure to the exchange rate risk arises from the its loans and deposits denominated in currencies other than Renminbi.

In 2016, foreign exchange rates frequently fluctuated due to the economic environments home and abroad, As such, the Bank advanced its analysis of the trends in macro-economy and foreign exchanges. In particular, the Bank effectively prevented the exchange rate risk and protected its foreign exchange assets by adopting a series of risk control measures, such as closing out market positions, regularly re-evaluating the market value of its proprietary foreign exchange capital, timely supplementing guarantee under its assets business, adjusting foreign exchange exposures, regularly conducting sensitivity analysis on foreign exchange exposures, using derivatives and carrying out stress testing.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### **5.6.3.2 Market Risk Management of Trading Accounts**

The market risk of trading accounts of the Bank arises primarily from the changes in asset values of financial products in the trading accounts due to changes in interest rates and exchange rates. The Bank evaluates the market value of the position in its Renminbi trading accounts on a daily basis by adopting market risk limit indicators such as trading exposure limit, stop-loss limit and value-at-risk limit. The Bank also measures the market risk of Renminbi and foreign currency trading accounts by regularly conducting sensitivity analysis and stress testing.

### **5.6.3.3 Interest Rate Risk Analysis**

Management of interest rate risk mainly aims at reducing the potential adverse impact on the net interest income and economic value caused by the changes in interest rate.

The Bank's interest rate risk mainly includes the risk of resetting interest rates in the commercial banking business. The risk of resetting interest rates, also referred to as the risk of maturity mismatching, is the primary and most common form of interest rate risk. It arises from the mismatch between the maturity (for fixed interest rate) of a bank's assets, liabilities and off-balance sheet business and the maturity of resetting the interest rate (as for floating interest rate). The asymmetry of resetting the interest rate leads to the changes of a bank's revenue or market value caused by the changes in the interest rate.

The Bank regularly conducts sensitivity analysis on the asset-liability gap and the interest rate and timely adjusts its funds transfer pricing to ensure an increasing revenue and market value.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table shows the distribution of assets and liabilities at the end of the Reporting Period on the next date of resetting interest rate (or the maturity date, whichever is earlier):

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2016					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year	Between one year and five years	More than five years
				(inclusive)	(inclusive)	
Total assets	905,482,647	14,919,383	438,904,645	269,469,921	143,674,625	38,514,073
Total liabilities	(859,108,021)	(15,167,659)	(397,171,065)	(262,774,026)	(166,595,246)	(17,400,025)
Asset-liability gap	46,374,626	(248,276)	(41,733,580)	6,695,895	(22,920,621)	21,114,048

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2015					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year	Between one year and five years	More than five years
				(inclusive)	(inclusive)	
Total assets	701,628,500	14,224,954	368,265,899	191,815,690	98,662,119	28,659,838
Total liabilities	(659,913,547)	(13,175,835)	(254,632,664)	(165,328,242)	(205,669,825)	(21,106,981)
Asset-liability gap	41,714,953	1,049,119	113,633,235	26,487,448	(107,007,706)	7,552,857



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.6.3.4 Interest Rate Sensitivity Analysis

The Bank adopts the sensitivity analysis to measure the potential impact on its net profits and other comprehensive income by the changes in interest rate. The following table sets out the interest rate sensitivity analysis as at the dates indicated based on the assets and liabilities as at the same dates:

	2016	2015
(Expressed in thousands of Renminbi, unless otherwise stated)	Increase/ (decrease)	Increase/ (decrease)
Change in profit after taxation		
Up 100 basis points parallel shift in yield curves	178,702	796,844
Down 100 basis points parallel shift in yield curves	(178,702)	(796,844)

	31 December 2016	31 December 2015
(Expressed in thousands of Renminbi, unless otherwise stated)	Increase/ (decrease)	Increase/ (decrease)
Change in equity		
Up 100 basis points parallel shift in yield curves	(127,828)	161,122
Down 100 basis points parallel shift in yield curves	137,426	(117,919)

### 5.6.3.5 Exchange Rate Sensitivity Analysis

The Bank adopts the sensitivity analysis to measure the potential impact on its net profits by the changes in exchange rate. The following table sets out the exchange rate sensitivity analysis as at the dates indicated based on the assets and liabilities as at the same dates:

	2016	2015
(Expressed in thousands of Renminbi, unless otherwise stated)	Increase/ (decrease)	Increase/ (decrease)
Change in profit after tax and equity		
Up 100 basis points change of foreign exchange rate	(11,022)	876
Down 100 basis points change of foreign exchange rate	11,022	(876)

### 5.6.4 Liquidity Risk Management

Liquidity risk refers to the risk of failure to timely obtain adequate funds at a reasonable cost to repay debts when due, perform other payment obligations, or satisfy other capital needs in the ordinary course of business.

In 2016, the Bank paid close attention to the liquidity management pressure caused by the changes in the macroeconomic and financial situation and realised the importance and seriousness of liquidity risk management. Thus, it further improved its liquidity management. First, it attached great importance to liquidity risk management, continuously improved its awareness of liquidity risk prevention, and included liquidity risk management into its strategic management. Second, it continuously strengthened its proactive analysis of the trends in macro-policy and capital market. Also, based on the market changes, the development of its asset and liability business and its liquidity status, the Bank actively adjusted its liquidity management strategy, and proactively made a plan for liquidity arrangement, thereby constantly strengthening its ability of preventing and controlling liquidity. Third, it continued to strengthen the bilateral management of assets and liabilities, enhanced asset liquidity, improved the stability of the source of liabilities by multiple means and further optimised its assets/liabilities structure. Fourth, it strengthened its management of liquidity indicators, paid close attention to the changes in liquidity, and diversified the methods of monitoring liquidity. In particular, it monitored on a daily basis, made a weekly forecast, carried out analysis every month, and quarterly conducted stress testing to improve its ability of identifying, monitoring and measuring liquidity risk. Fifth, it improved its liquidity emergency management. Based on changes in policy and market, it developed stress testing scenarios, formulated liquidity contingency plans and specified emergency measures in order to improve its efficiency of handling emergencies and further enhance its ability of liquidity risk control.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.6.4.1 Liquidity Risk Analysis

Facing the constant changes in the macro-environment, currency policy and regulatory policy, the Bank adhered to its prudent strategy of liquidity risk management to continuously enhance its ability of liquidity risk management. The Bank managed liquidity risk by monitoring the maturity of assets and liabilities and actively monitored multiple liquidity indicators. In particular, it made regular forecasts of capital liquidity of each branch, analysed the liquidity situation every month, and conducted liquidity pressure testing every quarter to make proper arrangements well in advance and strengthen its ability of proactively preventing liquidity risk. As such, it was ensured that the Bank would have sufficient liquidity. The Bank did not experience any liquidity risk in 2016.

The analysis of the Bank's assets and liabilities as at the end of the Reporting Period based on the relevant remaining due time for repayment is as follows:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2016							Total
	Indefinite	Repayable on demand	Within one month (inclusive)	Between one month and	Between three months	Between one year and five years	More than five years	
				three months (inclusive)	and one year (inclusive)			
Total assets	59,854,715	36,508,008	92,366,256	91,101,971	351,188,119	226,195,166	48,268,412	905,482,647
Total liabilities	-	(115,698,211)	(188,244,708)	(97,740,306)	(266,893,576)	(172,910,594)	(17,620,626)	(859,108,021)
Net position	59,854,715	(79,190,203)	(95,878,452)	(6,638,335)	84,294,543	53,284,572	30,647,786	46,374,626

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2015							Total
	Indefinite	Repayable on demand	Within one month (inclusive)	Between one month and	Between three months	Between one year and five years	More than five years	
				three months (inclusive)	and one year (inclusive)			
Total assets	51,714,576	20,529,105	75,250,147	86,071,268	257,552,791	174,022,447	36,488,166	701,628,500
Total liabilities	-	(96,391,782)	(97,649,038)	(66,833,090)	(167,961,736)	(209,687,601)	(21,390,300)	(659,913,547)
Net position	51,714,576	(75,862,677)	(22,398,891)	19,238,178	89,591,055	(35,665,154)	15,097,866	41,714,953

### 5.6.5 Information Technology Risk Management

Information technology risk refers to the risk that may occur to the Bank's operation, reputation or legal compliance in the process of applying information technology due to factors such as natural factors, human factors, technological limitations and management inadequacy.

In 2016, the Bank continuously enhanced its information technology risk management. Firstly, it conducted self-inspections on information technology risk, implemented the ISO20000 system and ISO27001 system and passed the CMMI-3 certification, further improving its ability of identifying, measuring, monitoring, assessing and preventing information technology risk. Secondly, the Bank established a reliable and intelligent disaster recovery system of independent and controllable technology, covering two locations and three centers, achieving simultaneous reflection and backup between data systems as well as zero time for failure recovery and zero data loss between data centres of the same city. As such, the Bank improved its ability of continuously managing its information technology business and handling information technology emergencies. Thirdly, the Bank launched classified protection, testing and security assessment on the integrated business system and electronic banking system and timely discovered potential risks in important information systems, making the information security safeguarding measures more effective, regulated and intensive. Fourthly, the Bank fully promoted the application of PRC-made security codes. It completed the reform and upgrade of these security codes used in online banking, online payment platforms and financial intelligence cards, thereby further enhancing the safety of these codes.

### 5.6.6 Reputational Risk Management

Reputational risk refers to the risk that may cause negative comments on the Bank made by relevant interested parties due to the acts relating to the Bank's operation, management and other aspects or other external incidents.

The Bank attached great importance to reputational risk management and achieved a satisfactory outcome by continuing perfecting related management systems and providing all business lines within the Bank with guidance on preventing, controlling and handling reputational risk. Firstly, the Bank established a sound reputational risk management system. It formulated and perfected all relevant rules and systems to further standardise the reputational risk management of the Bank and entities consolidated to the Bank's financial statements. Meanwhile, it set up specialised departments and strengthened the interaction and cooperation among entities, effectively preventing and handling various reputational risk incidents through reasonable allocation of resources and timely warning of potential risks. In addition, the Bank continuously strengthened the construction and cultivation of reputational risk consciousness, conducted multi-level trainings, and provided guidance to all business lines within the Bank and entities consolidated to the Bank's financial statements, demonstrating full efforts to prevent and control reputational risks. Secondly, the Bank fully strengthened its monitoring of public sentiment. It established a monitoring platform for public sentiment and a daily reporting system under which any incident and even zero incident should be reported, in order to enhance the timeliness and accuracy of public sentiment monitoring. It actively enhanced its communications with the public media, timely studied and analysed media highlights, and strengthened its monitoring and analysis of trends in public sentiment, thereby preventing incidents of public sentiment. Thirdly, the Bank continued reinforcing its ability of reputational risk management. It regularly carried out detection and inspection on reputational risk, timely rectified any issue once discovered, and continued emphasising on the performance appraisal of reputational risk management. The Bank also required itself and entities consolidated to the Bank's financial statements to timely report, closely follow up on and proactively prevent potential reputational risk. Fourthly, the Bank continuously strengthened the construction and cultivation of reputational risk consciousness, conducted multi-level trainings, and provided guidance to all business lines within the Bank and entities consolidated to the Bank's financial statements, demonstrating full efforts to prevent and control reputational risks.

### 5.6.7 Compliance Risk Management

Compliance risk refers to the risk that may cause legal sanction, regulatory punishment, significant financial loss or reputation loss due to failure to comply with relevant laws, rules and codes of conduct.

In 2016, the Bank established a sound compliance risk management system, improved its compliance risk management system, and formulated and implemented a management plan focusing on risk control, thereby optimising the control and management of compliance risk. It also cultivated the idea of “starting with the senior management and being value-added, compliance should be implemented by everyone in an active manner” and promoted a professional value of honesty and integrity, with a view to reinforcing the compliance awareness of all employees.

The Bank strictly implemented the full-process management of compliance risk, where it effectively identified and assessed compliance risk and adopted advanced measures to strengthen its compliance risk management before, during and after the incident. The main measures are as follows: First, the Bank strengthened its proactive study of risk control policies. In particular, in order to ensure a compliant operation of all business lines, it monitored the changes and adjustment in relevant laws, regulations and policies and timely reported any compliance risk with the help of its internal publication titled Trends in Compliance Polices, which covers regulatory policies, market dynamics, and non-compliance cases. Second, the Bank carried out a dynamic management of compliance risk by a database which included the compliance risk issues in all business lines such as credit business and financial market business. By effectively monitoring and controlling the risk issues, the Bank ensured a proper prevention and control of compliance risks during its business operation. Third, the Bank strengthened its compliance risk review during its business operation to ensure its business operation is in compliance with relevant laws, rules and guidelines. In particular, it strengthened its review on market access of new products and business, focusing on whether such new products and business meet the market access requirements set by the industry and regulatory compliance. Fourth, the Bank strengthened its post-incident supervision by regularly and randomly carrying out compliance risk assessment. It also included compliance into its work performance appraisal system, and effectively detected and inspected the compliance risks in aspects including business organisation structure, system construction, business authorisation, post setting, supervision and inspection. Thus, each of the Bank’s business lines achieved a steady and sound development.

### 5.6.8 Anti-Money Laundering Management

The Bank strictly complies with applicable anti-money laundering laws and regulations and attaches great importance to anti-money laundering work. In 2016, the Bank actively implemented the “risk-based” regulatory principle and thoroughly fulfilled its social responsibilities and statutory obligations of anti-money laundering. Firstly, the Bank improved its organisational structure and system structure of anti-money laundering, optimised its monitoring system, and updated its blacklist database. In particular, the Bank further implemented a management system emphasising record-keeping for due diligence work on high-risk customers and strengthened the detection and analysis of suspicious transactions. By doing this, the Bank added more value to its report on key suspicious transactions and strongly supported the People’s Bank of China and public security departments in their efforts cracking down on money-laundering activities. Secondly, the Bank actively carried out internal audit programs on anti-money laundering, timely detected potential problems and deficiencies in the current system and adopted effective remedial measures, thereby improving the efficiency of anti-money laundering risk management. Thirdly, the Bank actively conducted anti-money laundering trainings and public education sessions to enhance the capabilities of its anti-money laundering staff. With the publicity and propaganda of anti-money laundering information, the general public gained a deeper understanding of the risks relating to money laundering and terrorist financing, and the efficacy of risk prevention was fully enhanced. Fourthly, the Bank conducted performance appraisal of anti-money laundering on individuals and departments to fully motivate their incentives and efficiency in performing anti-money laundering work, thereby comprehensively enhancing the Bank’s overall performance in anti-money laundering work. Fifthly, the Bank seriously fulfilled its anti-money laundering duties, actively cooperated the regulatory authorities in their anti-money laundering inspections and investigations as well as strictly acted in compliance with its confidentiality duty of anti-money laundering.

## 5.7 ANALYSIS ON CAPITAL ADEQUACY RATIO

The Bank calculates and discloses its capital adequacy ratios in accordance with the Regulations Governing Capital of Commercial Banks (Provisional) (《商業銀行資本（管理辦法（試行）》) (effective since 1 January 2013) promulgated by the CBRC. As at 31 December 2016, the Bank’s capital adequacy ratios at all tiers satisfied the regulatory requirements under such new regulations. The Bank’s core tier-one capital adequacy ratio and tier-one capital adequacy ratio were both 9.10%, which were 0.32 percentage point lower than those at the end of the previous year; and the capital adequacy ratio was 11.99%, which was 1.04 percentage points lower than that at the end of the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table sets forth the relevant information of the Bank's capital adequacy ratio as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2016	31 December 2015
<b>Core capital</b>		
– Share capital	5,796,680	5,796,680
– Qualifying portion of capital reserve	11,855,505	11,855,505
– Surplus reserve	4,666,968	3,893,846
– General reserve	9,267,100	6,176,638
– Investment revaluation reserve	(92,044)	623,163
– Retained earnings	14,305,688	12,927,822
– Qualifying portions of non-controlling interests	462,462	348,314
– Others	(5,468)	(5,126)
<b>Core Tier-one Capital</b>	46,256,891	41,616,842
Core Tier-one Capital deductions	(91,496)	(61,209)
<b>Net Core Tier-one Capital</b>	46,165,395	41,555,633
Other Tier-one Capital	–	–
<b>Net Tier-one Capital</b>	46,165,395	41,555,633
<b>Tier-two Capital</b>		
– Qualifying portions of tier-two capital instruments issued	12,200,000	12,830,000
– Surplus provision for loan impairment	2,429,598	3,114,204
– Core Tier-two Capital deductions	–	–
<b>Net Tier-two Capital</b>	14,629,598	15,944,204
<b>Net Capital base</b>	60,794,993	57,499,837
Total risk weighted assets	507,222,708	441,206,838
Core Tier-one Capital adequacy ratio	9.10	9.42
Tier-one Capital adequacy ratio	9.10	9.42
Capital adequacy ratio	11.99	13.03



## SIGNIFICANT EVENTS

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### RELATED PARTY TRANSACTIONS

No material related party transaction that has adverse impact on the Bank's business results and financial position occurred during the Reporting Period.

### MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Bank was not involved in any litigation or arbitration that would materially affect its business operations.

### PUNISHMENT ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, none of the Bank, the Directors, the Supervisors or the senior management of the Bank was subject to any investigation, administrative penalty or public criticism by the China Securities Regulatory Commission (the "CSRC") or the CBRC, or any public censure by any securities exchange, or any punishment by any other regulatory authorities which would have a material impact on the Bank's operations.

### ACQUISITION AND DISPOSAL OF ASSETS AND BUSINESS MERGER

On 1 April 2015, the Bank and Huaxin Huiton Group Limited ("Huaxin Huiton Group") entered into a sale and purchase agreement (the "Sale and Purchase Agreement"), pursuant to which the Bank has agreed to acquire, and Huaxin Huiton Group has agreed to sell, 20% of the entire issued and paid-up share capital of Huaxin Trust Co., Ltd. (the "Acquisition"). The consideration for the Acquisition is RMB3,168 million (equivalent to approximately HK\$3,960 million), which was decided and negotiated on an arm's length basis between the Bank and Huaxin Huiton Group.

Upon mutual agreement, the Bank and Huaxin Huiton Group have entered into a termination agreement on 5 January 2016 to terminate the Sale and Purchase Agreement. Huaxin Huiton Group has refunded the deposit as set out in the Sale and Purchase Agreement to the Bank in accordance with the terms of the Sale and Purchase Agreement. Each party to the Sale and Purchase Agreement has released and discharged the other party from all claims under or in connection with the Sale and Purchase Agreement.

Having obtained the establishment approval, on 24 February 2016, Sheng Yin Consumer Finance Company Limited (盛銀消費金融有限公司) ("Consumer Finance Company") received the operation approval and the financial permit from the CBRC Liaoning Bureau. The registered capital of the Consumer Finance Company is RMB300 million, of which RMB180 million will be contributed by the Bank, RMB60 million will be contributed by Shun Feng Investment and Industrial Co., Ltd. (順峰投資實業有限公司) ("Shun Feng") and RMB60 million will be contributed by Da Lian De Xu Commerce and Trade Co., Ltd. (大連德旭經貿有限公司) ("De Xu"). The Bank, Shun Feng and De Xu will hold 60%, 20% and 20% of the equity interest in the Consumer Finance Company, respectively.

## SIGNIFICANT EVENTS (Continued)

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### SUPPLEMENTAL UNDERTAKING BY SHENYANG HENGXIN

Reference is made to pages 164 to 165 of the prospectus of the Bank dated 15 December 2014 (the “Prospectus”) in connection with the global offering of H Shares. As disclosed in the Prospectus, on 8 October 2014, Shenyang Hengxin undertook to the Bank that, among others, it will use the proceeds from disposing of the Shares it held to repay the outstanding balance of a loan in the amount of RMB1,723 million (such loan is classified as “Other Receivables” as the loan is interest-free) (the “Relevant Receivables”) owed by Shenyang City Infrastructure Construction Investment Development Co., Ltd. (瀋陽市城市基礎設施建設投資發展有限公司) (“Shenyang City Construction”) in full within two years from the date on which the H Shares first commenced trading on the Hong Kong Stock Exchange.

Reference is also made to (i) the circular of the Bank dated 5 August 2015 in relation to, among other things, the proposed plan for the A Share Offering; and (ii) the announcements of the Bank dated 5 July 2015, 27 August 2015, 27 November 2015 and 30 November 2015 in relation to, among other things, the A Share Offering. The CSRC has accepted the application materials for the A Share Offering. A copy of the A share prospectus has been made available on the official website of the CSRC ([www.csrc.gov.cn](http://www.csrc.gov.cn)) for preliminary publication.

As confirmed by the Bank’s PRC legal advisers, pursuant to the relevant PRC laws and regulations as well as the regulatory requirements of the CSRC and the relevant securities exchange, Shenyang Hengxin, as a major holder of Domestic Shares, is not allowed to dispose of any Domestic Shares held by it before completion of the A Share Offering. In addition, the Domestic Shares held by Shenyang Hengxin will be subject to lock-up for 36 months from completion of the A Share Offering (the “Lock-up Period”).

As at the end of the Reporting Period, the outstanding balance of the Relevant Receivables is approximately RMB726 million. After negotiation among the Bank, Shenyang City Construction and Shenyang Hengxin regarding repayment of the outstanding balance of the Relevant Receivables, on 11 November 2016, Shenyang Hengxin provided a supplemental undertaking to the Bank (the “Supplemental Undertaking”) that: (i) Shenyang Hengxin will continue to perform its obligations (including using the proceeds from disposal of a portion of the Shares it held to repay the outstanding balance of the Relevant Receivables) to repay the outstanding balance of the Relevant Receivables in full within 24 months from the expiry of the Lock-up Period; and (ii) without the Bank’s written consent, Shenyang Hengxin will not dispose of any Shares it held, nor will it pledge or transfer any or all of such Shares or create any encumbrances on such Shares prior to the full repayment of the outstanding balance of the Relevant Receivables.

Due to changes in the above repayment plan, on 31 December 2016, the Bank made additional provisions for impairment of relevant receivables of RMB269 million, and the balance of the impairment provision was RMB331 million.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

	31 December 2015		Changes during the Reporting Period			31 December 2016	
	Number	Percentage (%)	Issue of new shares	Others	Sub-total	Number	Percentage (%)
1. Shareholding of Domestic Shares legal persons	4,134,189,139	71.32	nil	nil	nil	4,134,189,139	71.32
Of which:							
1.1 Shareholding of state-owned legal persons	715,743,100	12.35	nil	nil	nil	715,743,100	12.35
1.2 Shareholding of private legal persons	3,418,446,039	58.97	nil	nil	nil	3,418,446,039	58.97
2. Shareholding of Domestic Shares natural persons	121,748,561	2.10	nil	nil	nil	121,748,561	2.10
3. H Shares	1,540,742,500	26.58	nil	nil	nil	1,540,742,500	26.58
Total	5,796,680,200	100.00	nil	nil	nil	5,796,680,200	100.00

## ISSUANCE AND LISTING OF SECURITIES

The Board has resolved and the Shareholders have approved at the 2015 first extraordinary general meeting of the Bank that, the Bank will implement the A Share Offering in order to further expand fund-raising resources, optimise the corporate governance structure of the Bank and enhance the Bank's core competitiveness. Reference is made to the announcement dated 27 November 2015 of the Bank. China Securities Regulatory Commission has accepted the application materials for the A Share Offering. A copy of the A Share prospectus has been made available on the official website of CSRC ([www.csrc.gov.cn](http://www.csrc.gov.cn)) for preliminary publication.

The number of A Shares planned to be issued will be not more than 600,000,000 Shares, representing approximately 14.10% and 10.35% of the Domestic Shares in issue and total issued share capital of the Bank as at the end of the Reporting Period, respectively.

The actual total offering size will be determined based on capital requirements of the Bank, communications with the regulatory authorities and the prevailing market conditions at the time of the offering by the Board with the Shareholders' authorisation after negotiation with the sponsor(s) (the lead underwriter(s)).

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (Continued)

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### ISSUANCE OF DEBT SECURITIES

#### 1. Debt Securities Issued

The Bank issued ten-year subordinated bonds in 2011 with an aggregate principal amount of RMB900 million and an interest rate of 6.50% per annum. The Bank redeemed these bonds on 4 November 2016.

In 2014, the Bank issued ten-year Tier 2 capital bonds, with an aggregate principal amount of RMB2.2 billion and an annual interest rate of 6.18%. Such Tier 2 capital bonds will be due on 30 May 2024.

In December 2015, the Bank issued ten-year Tier 2 capital bonds, with an aggregate principal amount of RMB10 billion and an annual interest rate of 4.57%. Such Tier 2 capital bonds will be due on 8 December 2025. The proceeds from the issuance of the bonds will be used to replenish the Bank's tier two capital and enhance capital adequacy ratio.

On 26 August 2016, the Bank issued financial bonds in the aggregate principal amount of RMB7 billion to members of the inter-bank bond market in China. The bonds comprise two types, which are three-year fixed rate bonds with an interest rate of 3.0% per annum and five-year fixed rate bonds with an interest rate of 3.1% per annum. The proceeds from the issuance of the bonds will be used for loans to small and miniature enterprises in accordance with the applicable laws and the approvals from regulatory authorities as well as the relevant national industrial policies.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (Continued)

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### 2. Proposed Issuance of Debt Securities

The Board has resolved, and the Shareholders have approved at the 2014 annual general meeting of the Bank held on 26 May 2015 that, subject to obtaining necessary governmental and regulatory authorities, the Bank will issue the following debt securities:

- 2.1 Financial bonds in an aggregate principal amount of up to RMB10 billion to the members of the inter-bank bond market in China, with a term of maturity of less than five years (inclusive) and an interest rate to be determined by the senior management of the Bank, subject to the authorisation by the Board and based on the investors' demand, the market environment and the operation of the Bank at the time of issuance of such bonds. The proceeds from the issuance of such bonds will be used to replenish the Bank's medium-and long-term liquidity; and
- 2.2 Renminbi-denominated bonds in an aggregate principal amount of up to RMB1.5 billion to overseas investors, with a term of maturity of less than five years (inclusive) and an interest rate to be determined by the senior management of the Bank, subject to the authorisation by the Board and based on the investors' demand, the market environment and the operation of the Bank at the time of issuance of such bonds. The proceeds from the issuance of such bonds will be used to replenish the Bank's medium-and long-term liquidity.

The Board has resolved, and the Shareholders have approved at the 2015 annual general meeting of the Bank held on 13 June 2016 that, subject to obtaining necessary governmental and regulatory authorities, the Bank will issue tier 2 capital bonds in the aggregate principal amount of up to RMB6 billion to members of the interbank bond market in China. The bonds will have a term of maturity of not more than 15 years with a redemption right from the end of the fifth year. The bonds will have a fixed interest rate payable on an annual basis to be determined through a public tender process. The proceeds from the issuance of the bonds will be used to replenish the Bank's tier two capital and enhance capital adequacy ratio.

The debt securities as mentioned above will not be listed on the Hong Kong Stock Exchange.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (Continued)

### PARTICULARS OF SHAREHOLDINGS

Particulars of Shareholdings of the top ten Shareholders of Domestic Shares on 31 December 2016

At the end of the Reporting Period, the Bank had a total of 5,796,680,200 Shares, comprising 4,255,937,700 Domestic Shares and 1,540,742,500 H Shares.

No.	Name of Shareholder	Nature of Shareholder	Total number of Shares held	Shareholding percentage (%)	Number of Shares pledged
1	Evergrande Real Estate Group (Nan Chang) Co., Ltd.	Private	1,001,680,000	17.28	0
2	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. ("Shenyang Hengxin")	State-owned	479,836,334	8.28	0
3	Liaoning Huibao International Investment Group Co., Ltd. ("Huibao International")	Private	400,000,000	6.90	0
4	Xinhu Zhongbao Co., Ltd. ("Xinhu Zhongbao")	Private	300,000,000	5.18	0
5	Founder Securities Co., Ltd. ("Founder Securities")	Private	300,000,000	5.18	0
6	Shanghai Changxin Group Co., Ltd. (上海昌鑫(集團)有限公司)	Private	200,000,000	3.45	0
7	Luenmei Group Co., Ltd. (聯美集團有限公司)	Private	200,000,000	3.45	0
8	Shenyang Zhongyou Tianbao (Group) Materials and Equipment Co., Ltd. ("Zhongyou Tianbao")	Private	190,000,000	3.28	0
9	Shenyang Dayang Decoration Engineering Co., Ltd. (瀋陽大洋裝飾工程有限公司)	Private	120,000,000	2.07	36,000,000
10	Shenyang Wuai Industrial Co., Ltd. (瀋陽五愛實業有限公司)	Private	118,159,093	2.04	0
Total			<u>3,309,675,427</u>	57.10	36,000,000

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (Continued)

### INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31 December 2016, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO), other than the Directors, Supervisors or chief executive, in the H Shares and underlying Shares of the Bank under Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interests	Number of H Shares held	Percentage of the total number of H Shares (%)	Percentage of the total share capital of the Bank (%)
Alto Trust Limited <sup>(1)</sup>	Interest of a controlled corporation	577,180,500 (Long position)	37.46	9.96
Lau Luen Hung <sup>(1)</sup>	Interest of a trustee Interest of a child under 18 or spouse Founder of a discretionary trust	577,180,500 (Long position)	37.46	9.96
Chan Hoi Wan <sup>(1)</sup>	Beneficiary of a trust Interest of a child under 18 or spouse	577,180,500 (Long position)	37.46	9.96
Solar Bright Ltd. <sup>(1)</sup>	Beneficiary of a trust Interest of a controlled corporation	577,180,500 (Long position)	37.46	9.96
Global King (PTC) Ltd. <sup>(1)</sup>	Beneficiary of a trust Interest of a controlled corporation	577,180,500 (Long position)	37.46	9.96
Joseph Lau Luen Hung Investments Limited <sup>(1)</sup>	Interest of a trustee Other	577,180,500 (Long position)	37.46	9.96
Chinese Estates Holdings Limited ("Chinese Estates Holdings") <sup>(1)</sup>	Interest of a controlled corporation	577,180,500 (Long position)	37.46	9.96
Cheng Yu Tung Family (Holdings) Limited <sup>(2)</sup>	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Cheng Yu Tung Family (Holdings II) Limited <sup>(2)</sup>	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook Capital Limited <sup>(2)</sup>	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook (Holding) Limited <sup>(2)</sup>	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (Continued)

Name of Shareholder	Nature of interests	Number of H Shares held	Percentage of the total number of H Shares (%)	Percentage of the total share capital of the Bank (%)
Chow Tai Fook Nominee Limited	Beneficial owner	179,518,060 (Long position)	11.65	3.10
	Interest of a controlled corporation			
Cheung Chung Kiu <sup>(3)</sup>	Interest of a controlled corporation	150,153,000 (Long position)	9.75	2.59
Shanghai International Trust Corp., Ltd.	Interest of a trustee	103,000,000 (Long position)	6.69	1.78
Bondic International Holdings Limited	Beneficial owner	100,153,000 (Long position)	6.50	1.73
Shunyi International Trade Co., Ltd.	Beneficial owner	92,785,000 (Long position)	6.02	1.60
Hwabao Trust Co., Ltd.	Interest of a trustee	90,000,000 (Long position)	5.84	1.55

Notes: (1) Great Captain Limited held 577,180,500 H Shares of the Bank. Great Captain Limited was wholly owned by China Entertainment and Land Investment Company Limited, which was in turn wholly owned by Chinese Estates Holdings (listed on the Hong Kong Stock Exchange; Stock Code: 127); Chinese Estates Holdings was owned as to 12.10% by Joseph Lau Luen Hung Investments Limited and as to 62.89% by Global King (PTC) Ltd.; Joseph Lau Luen Hung Investments Limited was wholly owned by Solar Bright Ltd.; Global King (PTC) Ltd. was wholly owned by Solar Bright Ltd.; and Solar Bright Ltd. was wholly owned by Alto Trust Limited. By virtue of the SFO, China Entertainment and Land Investment Company, Limited, Chinese Estates Holdings, Joseph Lau Luen Hung Investments Limited, Global King (PTC) Ltd., Solar Bright Ltd., Alto Trust Limited, Mr. Lau Luen Hung and Ms. Chan Hoi Wan are deemed to be interested in the Shares held by Great Captain Limited.

(2) Acemax Enterprises Limited and Oceanic Fortress Limited held 50,776,620 H Shares and 76,164,940 H Shares, respectively, and Acemax Enterprises Limited and Oceanic Fortress Limited were both wholly owned by Chow Tai Fook Nominee Limited. Chow Tai Fook Nominee Limited held 52,576,500 H Shares of the Bank. Chow Tai Fook Nominee Limited was controlled as to 99.80% by Chow Tai Fook (Holding) Limited; Chow Tai Fook (Holding) Limited was controlled as to 78.58% by Chow Tai Fook Capital Limited; Chow Tai Fook Capital Limited was owned as to 48.98% by Cheng Yu Tung Family (Holdings) Limited; Chow Tai Fook Capital Limited was owned as to 46.65% by Cheng Yu Tung Family (Holdings II) Limited. By virtue of the SFO, each of Cheng Yu Tung Family (Holdings II) Limited, Cheng Yu Tung Family (Holdings) Limited, Chow Tai Fook Capital Limited and Chow Tai Fook (Holding) Limited is deemed to be interested in the Shares held by Chow Tai Fook Nominee Limited, Acemax Enterprises Limited and Oceanic Fortress Limited.

(3) Bondic International Holdings Limited held 100,153,000 H Shares of the Bank. Bondic International Holdings Limited was wholly owned by Cheung Chung Kiu. Gold Faith Investments Limited, Worthwell Investments Limited and Bookman Properties Limited held 15,000,000 H Shares, 25,000,000 H Shares and 10,000,000 H Shares of the Bank, respectively. Each of Gold Faith Investments Limited, Worthwell Investments Limited and Bookman Properties Limited was indirectly controlled by Cheung Chung Kiu. By virtue of the SFO, Cheung Chung Kiu is deemed to be interested in the Shares held by Bondic International Holdings Limited, Gold Faith Investments Limited, Worthwell Investments Limited and Bookman Properties Limited.



## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (Continued)

As at 31 December 2016, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO), other than the Directors, Supervisors or chief executive, in the Domestic Shares and underlying Shares of the Bank under Divisions 2 and 3 Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interests	Number of Domestic Shares held	Percentage of the total number of Domestic Shares (%)	Percentage of the total share capital of the Bank (%)
China Evergrande Group <sup>(1)</sup>	Interest of a controlled corporation	1,001,680,000 (Long position)	23.54	17.28
Shenyang Hengxin	Beneficial owner	479,836,334 <sup>(2)</sup> (Long position)	11.27	8.28
Shenyang Industrial Investment Development Group Co., Ltd. <sup>(3)</sup>	Interest of a controlled corporation	479,836,334 <sup>(2)</sup> (Long position)	11.27	8.28
Huibao International	Beneficial owner	400,000,000 (Long position)	9.40	6.90
Beijing Jiutai Group Co., Ltd. <sup>(4)</sup>	Interest of a controlled corporation	400,000,000 (Long position)	9.40	6.90
Li Yuguo <sup>(4)</sup>	Interest of a controlled corporation	400,000,000 (Long position)	9.40	6.90
Xinhu Zhongbao	Beneficial owner	300,000,000 (Long position)	7.05	5.18
Zhejiang Xinhu Group Co., Ltd. <sup>(5)</sup>	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Huang Wei <sup>(5)</sup>	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Founder Securities	Beneficial owner	300,000,000 (Long position)	7.05	5.18
Peking University Founder Group Co., Ltd. <sup>(6)</sup>	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Peking University Asset Management Company Limited <sup>(6)</sup>	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (Continued)

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### Notes:

- (1) China Evergrande Group (a Hong Kong listed company registered in the Cayman Islands; Stock Code: 3333) was interested in 1,001,680,000 Domestic Shares, which were held by its indirect wholly-owned subsidiary, Evergrande Real Estate Group (Nan Chang) Co., Ltd. (恆大地產集團(南昌)有限公司).
- (2) According to the register of shareholders of the Bank as at 31 December 2016, Shenyang Hengxin held 479,836,334 Domestic Shares, representing approximately 11.27% of the total number of Domestic Shares and 8.28% of the total share capital of the Bank, respectively.
- (3) Shenyang Hengxin was wholly owned by Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司). By virtue of the SFO, Shenyang Industrial Investment Development Group Co., Ltd. is deemed to be interested in the Shares held by Shenyang Hengxin.
- (4) Huibao International was wholly owned by Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司), which was in turn owned as to 70% by Li Yuguo (李玉國). By virtue of the SFO, Beijing Jiutai Group Co., Ltd. and Li Yuguo are deemed to be interested in the Shares held by Huibao International.
- (5) Based on the information provided by Xihu Zhongbao, Xihu Zhongbao was owned as to 52.09% by Zhejiang Xihu Group Co., Ltd. (浙江新湖集團股份有限公司), which was in turn owned as to 67.22% by Huang Wei (黃偉). By virtue of the SFO, each of Zhejiang Xihu Group Co., Ltd. (浙江新湖集團股份有限公司) and Huang Wei (黃偉) is deemed to be interested in the Shares held by Xihu Zhongbao.
- (6) Based on the information provided by Founder Securities, Founder Securities was owned as to 29.29% by Peking University Founder Group Co., Ltd. (北大方正集團有限公司), which was in turn owned as to 70% by Peking University Asset Management Company Limited (北大資產經營有限公司).

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

## SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL SHARE CAPITAL

As at the end of the Reporting Period, Evergrande Real Estate Group (Nan Chang) Co., Ltd., Great Captain Limited, Shenyang Hengxin, Huibao International, Xihu Zhongbao and Founder Securities held 1,001,680,000 Domestic Shares, 577,180,500 H Shares, 479,836,334 Domestic Shares, 400,000,000 Domestic Shares, 300,000,000 Domestic Shares and 300,000,000 Domestic Shares of the Bank, respectively, representing 17.28%, 9.96%, 8.28%, 6.90%, 5.18% and 5.18% of the Bank's total share capital, respectively. The Shares held by Great Captain Limited are counted as part of the Bank's public float.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Basic Information of Directors, Supervisors and Senior Management as at the Latest Practicable Date

Name	Age	Position
Mr. WANG Chunsheng (王春生)	55	Executive Director, President
Mr. WANG Yigong (王亦工)	50	Executive Director, Vice President and chief risk officer
Mr. WU Gang (吳剛)	46	Executive Director, Vice President
Mr. SUN Yongsheng (孫永生)	56	Executive Director, Vice President
Mr. LI Jianwei (李建偉)	56	Non-executive Director
Mr. LI Yuguo (李玉國)	62	Non-executive Director, Vice Chairman of the Board
Mr. ZHAO Weiqing (趙偉卿)	57	Non-executive Director
Mr. LIU Xinfa (劉新發)	57	Non-executive Director
Mr. YU Yongshun (于永順)	66	Independent Non-executive Director
Mr. LAU Chi Pang (劉智鵬)	56	Independent Non-executive Director
Mr. BA Junyu (巴俊宇)	61	Independent Non-executive Director
Mr. SUN Hang (孫航)	50	Independent Non-executive Director
Mr. DING Jiming (丁繼明)	52	Independent Non-executive Director
Mr. YANG Lin (楊林)	56	Employee Representative Supervisor, Chairman of the Board of Supervisors
Mr. HAN Xuefeng (韓學豐)	46	Employee Representative Supervisor, Vice Chairman of the Board of Supervisors
Mr. SHI Yang (石陽)	51	Employee Representative Supervisor
Mr. CHEN Zhaogui (陳招貴)	59	Shareholder Representative Supervisor
Mr. PAN Wenge (潘文戈)	50	Shareholder Representative Supervisor
Ms. SUN Yi (孫奕)	62	Shareholder Representative Supervisor
Mr. HUANG Liangkuai (黃良快)	74	External Supervisor
Mr. ZHOU Zheren (周喆人)	39	External Supervisor
Mr. WEN Zhaoye (溫兆曄)	42	External Supervisor
Mr. HU Guang (胡光)	57	Chief internal auditor
Mr. ZHANG Yi (張翼)	46	Chief information officer
Mr. LIU Zhiyan (劉志岩)	57	Chief financial officer
Mr. ZHOU Zhi (周峙)	48	Secretary of the Board

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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## CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 1. Changes in Directors

Ms. Zhang Yukun has resigned from the positions of the chairperson and executive director of the Bank, and a member of the nomination and remuneration committee of the Board and, chairperson of the strategic development committee of the Board with effect from 24 September 2016 due to work arrangement.

Due to work arrangement, Ms. Yang Yuhua has resigned from the positions of the non-executive director, member of the nomination and remuneration committee of the Board and member of the strategic development committee of the Board of the Bank, with effect from 2 March 2017.

### 2. Changes in Supervisors

During the Reporting Period, there was no change in Supervisors.

### 3. Changes in Senior Management

During the Reporting Period, there was no change in senior management of the Bank.

## BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 1. Biographies of Directors

#### *Executive Directors*

**Mr. WANG Chunsheng (王春生)**, aged 55, has been appointed as an executive Director of our Bank since November 2009 and president of our Bank since August 2013. He is primarily responsible for the daily operations and management of our Bank.

Mr. Wang has over 30 years of experience in banking business operation and management. He joined our Bank in September 1997. From September 1997 to May 1998, he worked as deputy chief of the planning office of our Zhongshan Sub-branch. From May 1998 to January 2002, he served as (managing) vice president of our Beizhan Sub-branch. From January 2002 to July 2005, he became president of our Huashan Sub-branch. He worked as general manager of the integrated funds planning department of our Bank from July 2005 to March 2008, and served as vice president of our Bank from March 2008 to August 2013. Prior to joining our Bank, he successively held various positions at Tieling Branch of China Construction Bank Corporation, one of the largest commercial banks in China, from August 1983 to September 1997, including staff member at the integrated office, deputy chief of the integrated office and deputy director of the credit and loan department.

Mr. Wang graduated from Dongbei University of Finance and Economics (Liaoning, PRC) in July 1989, majoring in infrastructure finance (correspondence course), and received a master's degree in business administration from Jilin University of Technology (Jilin, PRC) in November 2000. He has been a senior economist as accredited by the Personnel Office of Liaoning Province since October 2006.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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**Mr. WANG Yigong (王亦工)**, aged 50, has been appointed as an executive Director of our Bank since August 2013 and vice president and chief risk officer of our Bank since January 2013. He is primarily in charge of our risk control center, information technology department, compliance department and legal department and takes charge of the risk control management of our Bank.

Mr. Wang has over 30 years of experience in banking business operation and management. He joined our Bank in June 1998 and served as deputy general manager of the asset security department of our Bank from June 1998 to January 2001. From January 2001 to February 2002, he worked as (managing) vice president of our Liaoshen Sub-branch. He then served as president of our Zhenghao Sub-branch from February 2002 to January 2006, during which he also worked as president of our Liaoshen Sub-branch from February 2002 to February 2003. He held the position of general manager of the credit and loan management department of our Bank from January 2006 to January 2013, during which he also served as head of the development strategies research center of our Bank from January 2009 to January 2013. Prior to joining our Bank, he successively worked as a cashier, a credit clerk and deputy head of credit office at the Tiexi Office of Industrial and Commercial Bank of China in Shenyang from December 1984 to June 1998.

Mr. Wang graduated from The Open University of China (formerly known as China Central Radio and TV University) (Beijing, PRC) in November 2002, majoring in finance. He has been an economist as accredited by the PRC Ministry of Personnel since June 1995. He has obtained the “Shenyang May 1 Labor Medal” by Shenyang General Labor Union in April 2015.

**Mr. Wu Gang (吳剛)**, aged 46, was appointed as an executive director of the Bank in May 2014, and the vice president of the Bank in January 2013. He also served as the president of our Beijing branch from August 2009 to August 2016. He is mainly in charge of investment banking department, corporate business department, international business department, financial market operating center and capital operating center.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Mr. Wu has over 25 years of experience in banking business operation and management. He joined the Shenhe City Credit Cooperative of Shenyang Cooperative Bank, our predecessor, in June 1989. From June 1989 to May 1998, he served as a staff member at the Shenhe City Credit Cooperative of Shenyang Cooperative Bank and the Nanhu Sub-branch of our Bank (including its predecessor). From May 1998 to February 2001, he worked as assistant to president of our Nanhu Sub-branch. From February 2001 to February 2003, he successively worked as assistant to general manager and deputy general manager of the asset security department of our Bank. From February 2003 to January 2007, he successively served as (managing) vice president and president of our Taishan Sub-branch. From January 2007 to January 2009, he successively held the positions of president of our Yaming Sub-branch and president of our Shenhe Sub-branch. After that, he worked as deputy director of the preparatory office of Shenyang business operation department of our Bank from January 2009 to August 2009.

Mr. Wu graduated from the Open University of China (previously known as Central Radio and TV University) (Beijing, the PRC) in June 2003, majoring in finance, and obtained the Master of Business Administration of Senior Management from Renmin University of China in June 2015. He has been an economist as accredited by the Personnel Office of Liaoning Province since November 1997.

**Mr. Sun Yongsheng (孫永生)**, aged 56, was appointed as the vice president of the Bank in June 2014 and an executive director of the Bank in October 2015. He served as the director of the president's office from January 2014 to January 2017, and is mainly in charge of the president's office, retail business department, planning and accounting department, business operation department of the Bank's head office, small corporate financial service center, credit card center, Shengyin Consumption Finance Co., Ltd., Liaoning North Financial Assets Trading Center and rural banking.

Mr. Sun has over 20 years of experience in banking business operation and management. He joined the Huashan Sub-branch of the Bank in September 1997. From September 1997 to July 2006, he successively served as president of the Huashan Sub-branch of the Bank and president of the Bank's Binhe Sub-branch. He held the positions of general manager of the business department and (managing) deputy general manager of Shenyang operation and administration department of the Bank from July 2006 to February 2012, during which he also worked as president of the Bank's Shenhe Sub-branch from January 2010 to February 2012. From February 2012 to January 2013, he served as director of the president's office and director of the board's office at the Bank. From January 2013 to January 2014, he worked as president of the Bank's Shanghai Branch. From January 2014 to July 2014, he served as general manager of the retail business department of the Bank. From January 2014 to January 2015, he served as the managing vice chairman of the labor union of the Bank. Prior to joining the Bank, he worked successively as an administrative accountant, deputy chief of the general affairs division, chief of the accounting division at Liaoning Financial Vocational College (遼寧金融職業學院, formerly known as 遼寧省金融職工大學) and general manager of Shenyang Huashan Credit Cooperative from August 1983 to August 1997.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Mr. Sun graduated from Liaoning University (Liaoning, PRC) in June 2000, majoring in administrative management, and obtained a diploma of post-graduate study in political economics from Dongbei Normal University (Jilin, PRC) in July 2002. He has been a senior accountant as accredited by the Personnel Office of Liaoning Province since September 2002.

### ***Non-executive Directors***

**Mr. LI Jianwei (李建偉)**, aged 56, has been appointed as a non-executive Director of our Bank since June 2006. He has been the chairman of the board and general manager of Shenyang Hengxin since July 2004, and deputy general manager of Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司) since July 2013. Prior to that, he successively worked as chief of the asset revenues (property rights) division at Shenyang Finance Bureau from December 2001 to July 2004, deputy chief of the administrative affairs and resources division and chief of capital operation division at Shenyang State-owned Assets Supervision and Administration Commission from March 1994 to December 2001, and principal staff and deputy chief of the accounting division at Shenyang Finance Bureau from March 1985 to March 1994.

Mr. Li graduated from Liaoning University (Liaoning, PRC) in December 1991, majoring in industrial enterprise management, and received a master's degree in philosophy of Marxism from Liaoning University (Liaoning, PRC) in June 2000. He has been a non-practising member of Liaoning Public Certified Accountants Association since December 2009.

**Mr. LI Yuguo (李玉國)**, aged 62, has been appointed as a non-executive Director of our Bank since July 2013 and the vice chairman of the Board since June 2014. He has been the chairman of Huibao International since June 2013 and the chairman of Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司) since May 1993. Prior to that, he successively worked at the planning bureau of the China Association for Science and Technology (中國科學技術協會) as principal staff, deputy chief and chief of the accounting division from August 1983 to October 1992.

Mr. Li graduated from Jiangxi University of Finance and Economics (formerly known as Jiangxi Institute of Finance and Economics (江西財經學院)) (Jiangxi, PRC) in July 1983, majoring in industrial accounting.



## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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**Mr. ZHAO Weiqing (趙偉卿)**, aged 57, has been appointed as a non-executive Director of our Bank since May 2014. He also served as our shareholders representative Supervisor from March 2008 to May 2014. He has been the president and a director of Xinhua Zhongbao since October 2009 and the vice chairman of the board of Xinhua Zhongbao from October 2009 to November 2015 and was the vice president of Xinhua Zhongbao from May 2007 to October 2009. He has been the general manager of Shenyang Xinhua Real Estate Development Co., Ltd. (瀋陽新湖房地產開發有限公司) since September 2002 and served as the executive deputy manager of Zhejiang Xinhua Real Estate Group Co., Ltd. (浙江新湖房地產集團有限公司) from October 1998 to September 2002. He worked as a teacher and director of the training department at Zhejiang Provincial Government School of the Chinese Communist Party (中共浙江省省級機關黨校) from July 1986 to October 1998.

Mr. Zhao graduated from Hangzhou Normal University (formerly known as Hangzhou Normal College (杭州師範學院)) (Zhejiang, PRC) in August 1980, majoring in physics, and graduated from the Party School of the Zhejiang Committee of the Chinese Communist Party (中共浙江省委黨校) (Zhejiang, PRC), majoring in political economics in July 1986. He has been accredited as a lecturer by the Teachers' Qualification Accreditation Committee of Chinese Communist Party Zhejiang Provincial Committee (中共浙江省委教師職務評審委員會) since March 1991.

**Mr. LIU Xinfu (劉新發)**, aged 57, has been appointed as a non-executive Director of our Bank since June 2006 and was the vice chairman of our Bank from June 2006 to May 2014. He has been the chairman of the board at Zhongyou Tianbao since December 2000, and was the general manager of Zhongyou Tianbao from October 1996 to December 1998. Prior to that, he served as the general manager of the Multi-Operation Company of Northeast Oil Pipeline Administrative Bureau (東北輸油管理局多種經營公司) from August 1983 to October 1996. He currently is a director of a number of companies, including Tieling TIPO Petroleum Steel Pipe Co., Ltd. (鐵嶺天寶石油鋼管有限公司), Tieling Machinery & Equipment Manufacturing Co., Ltd. of CNPC (鐵嶺中油機械設備製造有限公司), Shanghai Xinfu International Terminal Co., Ltd. (上海新發國際碼頭有限公司), Beijing Baoshan Venture Commercial Trade Co., Ltd. (北京寶山創業商貿有限公司), and Grand Dynasty Hotel (北京新大京飯店).

Mr. Liu graduated from the department of economy of Liaoning University (Liaoning, PRC) in July 1984, majoring in enterprise management and obtained a diploma of the Advanced Workshop on Leadership Skills (領導韜略高級研修班) from the school of continuing education of Tsinghua University in October 2008.

Mr. Liu has served as vice chairman of Shenyang Rural Commercial Bank Co., Ltd. (瀋陽農村商業銀行股份有限公司) ("Shenyang Rural Commercial Bank") since January 2012. Shenyang Rural Commercial Bank is a financial institution primarily engaging in commercial banking business in Shenyang. Shenyang Rural Commercial Bank engages in banking business in Shenyang, which competes with certain aspects of our business. On the basis that (i) Mr. Liu, as a non-executive director of Shenyang Rural Commercial Bank, does not participate in the daily operation and management of Shenyang Rural Commercial Bank, (ii) Shenyang Rural Commercial Bank has a management team independent of our Bank, and (iii) Mr. Liu is our non-executive Director and does not participate in our day-to-day management, we and our Directors consider that the roles of Mr. Liu acting as the vice chairman of Shenyang Rural Commercial Bank and a non-executive Director of our Bank at the same time do not have an impact on the business operation of our Bank.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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### *Independent Non-executive Directors*

**Mr. YU Yongshun (于永順)**, aged 66, has been appointed as an independent non-executive Director of our Bank since May 2014. Mr. Yu has been an independent director of Cinda Securities Co., Ltd. (信達證券股份有限公司) and chairman of the supervisory board of Huaxin Trust Co., Ltd. (華信信託股份有限公司) since November 2011, and an independent non-executive director of Bank of Communications Co., Ltd. (交通銀行股份有限公司) (listed on the Hong Kong Stock Exchange, stock code: 3328; listed on the Shanghai Stock Exchange, stock code: 601328) since August 2013.

Mr. Yu has over 35 years of experience in banking business management and auditing. From April 1999 to December 2010, he successively held positions of general manager of the audit department, deputy director of the risk and internal control management committee, and chief internal auditor at China Construction Bank Corporation. Prior to that, he held various positions at China Construction Bank Corporation from September 1977 to April 1999, including chief of the integrated planning department, deputy chief of the funds planning department, chief of the real estate credit department, president and general manager of the second business department of the Xinjiang Autonomous Region branch.

Mr. Yu graduated from Dongbei University of Finance and Economics (formerly known as Liaoning Institute of Finance and Economics (遼寧財經學院)) (Liaoning, PRC) in August 1977, majoring in infrastructure finance, and graduated from the postgraduate program from the Graduate School of Chinese Academy of Social Sciences (Beijing, PRC), in March 1998, majoring in monetary banking. He has been a senior economist as accredited by China Construction Bank Corporation since May 1993. Mr. Yu enjoys the Government Special Allowance (政府特殊津貼) of the State Council.

**Mr. LAU Chi Pang (劉智鵬)**, aged 56, has been appointed as an independent non-executive Director of our Bank since May 2014. He has lectured at Lingnan University since September 1993 and his current position is associate professor in the history department of Lingnan University. He has also been a member of the board committee of Lingnan University since May 2014, secretary general of Hong Kong Local Records Foundations and director of Hong Kong Local Records Office (香港地方誌辦公室) since June 2009, director of the history of Hong Kong and southern China research department of Lingnan University since September 2005 and a council member of Lingnan University since October 1999. He also served as the vice chairman of the Tuen Mun District Council (屯門區議會) of Hong Kong from July 2011 to December 2011, a member of the Tuen Mun District Council from January 2004 to December 2011, during which he served as chairman of the Finance, Administration and Publicity Committee of Tuen Mun District Council from January 2008 to December 2011.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Mr. Lau received a bachelor's degree in literature from the department of Chinese studies of The University of Hong Kong (Hong Kong) in November 1984, a master's degree in philosophy from the department of Chinese studies of The University of Hong Kong (Hong Kong) in November 1987, and a doctoral degree in philosophy from the history department of University of Washington (Washington, U.S.) in August 2000.

**Mr. BA Junyu (巴俊宇)**, aged 61, has been appointed as an independent non-executive Director since June 2010. Mr. Ba has been a professor at Shenyang Ligong University (瀋陽理工大學) since September 2001, and served as principal, professor and researcher of the social economy research institute of Shenyang Ligong University from September 2001 to May 2009. He serves as a professor at the ideological and political theory teaching and research department of Shenyang Ligong University since May 2009. Prior to that, he served as an associate professor and the head of the economic research institute at Shenyang University from April 1996 to August 2003. From August 1985 to April 1996, he served as a vice dean, deputy principal and associate professor of the market economy research institute at Shenyang Institute of Finance and Economics. He used to work at the teaching and research office at Shenyang Accounting School (瀋陽市財會學校) as deputy director, director and lecturer from August 1982 to August 1985.

Mr. Ba graduated from Dongbei University of Finance and Economics (formerly known as Liaoning Institute of Finance and Economics (遼寧財經學院)) (Liaoning, PRC) in July 1982, majoring in commercial enterprise management. He has been a researcher as accredited by the Personnel Office of Liaoning Province since August 2008.

**Mr. SUN Hang (孫航)**, aged 50, has been appointed as an independent non-executive Director of our Bank since May 2014. He has been the director of the Enterprise Management Research Centre of Liaoning Academy of Social Sciences since April 2014. Prior to that, he served as the principal of the Human Resources Research Institute of Liaoning Academy of Social Sciences from April 2007 to March 2016, the general manager at Shenyang Yuhuang Health Products Co., Ltd. (瀋陽玉皇保健品有限公司) from March 2002 to April 2007, worked as deputy principal of the Applied Technology Research Institute of Chinese Academy of Management Science (中國管理科學研究院) from March 1998 to March 2002, and was a deputy director staff at the enterprise department of Changchun Industry and Commerce Association and manager of Xunda Motorcycle Co., Ltd. (迅達摩托車公司) from October 1988 to March 1998.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Mr. Sun graduated from Anhui University of Finance & Economics (formerly known as Anhui Institute of Finance & Economics) (安徽財貿學院) (Anhui, PRC) in July 1988, majoring in merchandising. He has been a senior economist as accredited by the Personnel Office of Liaoning Province since December 2001, and a researcher as accredited by the Department of Human Resources and Social Security of Liaoning Province since September 2011.

**Mr. DING Jiming (丁繼明)**, aged 52, has been appointed as an independent non-executive Director of our Bank since May 2014. He has been general manager of Beijing Zhongrunda Engineering and Consulting Co., Ltd. (北京中潤達工程諮詢有限公司) since June 1999. Prior to that, he worked as a director staff at the Liaoning Office of the PRC Ministry of Finance from July 1986 to June 1999.

Mr. Ding graduated from Anshan University (Liaoning, PRC) in July 1986, majoring in industrial accounting, and received a master's degree in finance from the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) (Beijing, PRC) in December 1997. He has been a certified public accountant as accredited by the PRC Ministry of Finance since October 1998, and an asset appraiser as accredited by the PRC Ministry of Finance since August 2006.

## 2. Biographies of Supervisors

### *Employee Representative Supervisors*

**Mr. YANG Lin (楊林)**, aged 56, has been appointed as an employee representative Supervisor of our Bank since February 2008 and chairman of our Board of Supervisors since March 2008.

Mr. Yang joined the Shenhe Credit Cooperative of Shenyang Cooperative Bank, our predecessor, in March 1987 and has held a number of positions in our Bank since then. From March 1987 to February 2002, he successively worked as a credit clerk of the Shenhe Credit Cooperative and vice president of the Baogong Credit Cooperative of Shenyang Cooperative Bank, deputy director of business department and deputy chief of the credit and loan division of Shenyang Cooperative Bank, (managing) deputy general manager and general manager of the asset security department of our Bank. From February 2002 to March 2008, he served as a vice president of our Bank.

Mr. Yang graduated from the Party School of the Shenyang Committee of the Chinese Communist Party (中共瀋陽市委黨校) (Liaoning, PRC) in May 1997, majoring in finance and accounting, and graduated from Jilin Polytechnical University (吉林工業大學) (Jilin, PRC) in November 2000, majoring in business administration. He has been a senior economist as accredited by the Personnel Office of Liaoning Province since September 2001.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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**Mr. HAN Xuefeng (韓學豐)**, aged 46, has been appointed as an employee representative Supervisor of our Bank since May 2010, and vice chairman of our Board of Supervisors since June 2014. He has been the president of Anshan Branch of the Bank since November 2016.

Mr. Han joined the Huashan Sub-branch of our Bank in September 1997 and has held a number of positions in our Bank since then. From September 1997 to January 1998, he successively worked as deputy director of the office and manager of the market development department of the Huashan Sub-branch of our Bank. From January 1998 to October 2009, he successively worked at our Bank as secretary to the president's office, chief of the secretarial section, assistant to director of the discipline supervision and inspection office, deputy director of the discipline supervision and inspection office, and deputy director of the president's office. From October 2009 to January 2012, he successively served as managing deputy director of the inspection office, director of the president's office and first deputy chief of the party committee department at our Bank. From January 2012 to November 2016, he was the deputy secretary of the discipline committee, head of the party committee department, head of the human resource department, and vice general controller.

Mr. Han graduated from Liaoning University (Liaoning, PRC) in July 2004 (correspondence education), majoring in law. He has been a senior administrative officer (高級政工師) as accredited by the Leading Work Group Office of Appraisal for the Professionalism of Ideological and Political Officers of Enterprises in Liaoning Province (遼寧省企業思想政治工作人員專業職務評定工作領導小組辦公室) since July 2012.

**Mr. SHI Yang (石陽)**, aged 51, has been appointed as an employee representative Supervisor of our Bank since June 2014. He has also served as the president of our Shenyang Branch since January 2015 and secretary to the party committee of our Shenyang Branch since July 2015.

He joined the Huigong Credit Cooperative, one of our predecessors, in March 1987 and has held a number of positions in our Bank (including its predecessors) since then. From March 1987 to April 1992, he successively worked as a credit clerk of the Huigong Credit Cooperative and a credit clerk at the credit and loan division of the headquarters. From April 1992 to February 2000, he served as vice president of our Tiexi Sub-branch. From February 2000 to January 2003, he held the positions of assistant to the president and vice president of our Yuanlu Sub-branch. From January 2003 to July 2008, he served as vice president of our Yuhong Sub-branch. From July 2008 to January 2015, he successively worked as the president of Yuhong Sub-branch, the vice president of Shenyang Branch and the president of Dandong Branch of our Bank. From January 2014 to September 2014, he served concurrently as the director of Preparatory Office of Dandong Branch, and from January 2015 to July 2015 acted as the deputy secretary to the party committee of Shenyang Branch of our Bank.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Mr. Shi graduated from the Party School of the Liaoning Committee of the Chinese Communist Party (中共遼寧省委黨校) (Liaoning, PRC) in March 1997, majoring in economic management, and obtained a diploma of post-graduation study in political economics from Northeast Normal University (Liaoning, PRC) in December 2000. He has been a senior economist as accredited by the Department of Human Resources and Social Security of Liaoning Province since September 2009.

### **Shareholder Representative Supervisors**

**Mr. CHEN Zhaogui (陳招貴)**, aged 59, has been appointed as a shareholder representative Supervisor of our Bank since May 2014. He also served as a Director of our Bank from June 2006 to May 2014. He has been chairman of Shanghai Changxin (Group) Co., Ltd. (上海昌鑫(集團)有限公司) since June 1994. Prior to joining Shanghai Changxin (Group) Co., Ltd., Mr. Chen worked as a project manager at the Shanghai branch office of Zhejiang Wenling Second Construction and Engineering Co., Ltd. (浙江溫嶺市第二建築工程公司) from January 1986 to June 1994.

Mr. Chen graduated from China University of Geosciences (中國地質大學) (Beijing, PRC) through online-based education in July 2007, majoring in civil engineering. He has been a senior engineer as accredited by Huanggang Professional Title Reform Office (黃岡職改辦) since July 2005.

**Mr. PAN Wenge (潘文戈)**, aged 50, has been appointed as a shareholder representative Supervisor of our Bank since May 2014. Mr. Pan has been the chief financial officer of Luenmei Holding Co., Ltd. (聯美控股股份有限公司, listed on the Shanghai Stock Exchange, stock code: 600167) since November 2009. Prior to that, he held the position of deputy chief financial officer at Luenmei (China) Investment Co., Ltd. (聯美(中國)投資有限公司) from May 2007 to November 2009. From May 2000 to May 2007, he worked at Huaxia Bank, where he successively served as deputy general manager of the financing center of Shenyang branch, general manager of the business department of Shenyang branch, president of Shenyang Beizhan sub-branch and Shenyang Zhongshan Square Sub-branch.

Mr. Pan graduated from Dongbei University of Finance and Economics (formerly known as Liaoning Institute of Finance and Economics (遼寧財經學院)) (Liaoning, PRC) in July 1988, majoring in finance and accounting, and a master's degree in applied psychology from Liaoning Normal University (Liaoning, PRC) in July 2002. He has been an accountant as accredited by the Personnel Office of Liaoning Province since October 1994.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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**Ms. SUN Yi (孫奕)**, aged 62, has been appointed as a shareholder representative Supervisor of our Bank since May 2014 and served as a Director of our Bank from March 2013 to May 2014. She has been the vice president of Jilin Huahai Energy Group Co., Ltd. (吉林華海能源集團有限公司) since December 2013. Prior to that, she worked at Jilin Huahai Energy Group Co., Ltd. as deputy manager and manager of the accounting department successively from April 1999 to December 2013. She served as director of the accounting department of Jilin Petroleum and Natural Gas Development Co., Ltd. (吉林石油天然氣開發有限責任公司) from June 1996 to April 1999.

Ms. Sun graduated from Jilin University of Finance and Economics (formerly known as Changchun Institute of Taxation (長春稅務學院)) (Jilin, PRC) in June 1994, majoring in accounting. She has been a certified public accountant as accredited by the PRC Ministry of Finance since October 2003.

### **External Supervisors**

**Mr. HUANG Liangkuai (黃良快)**, aged 74, has been appointed as an external Supervisor of our Bank since May 2014. He has been the chief representative of the Shenzhen Research Institute of Xiamen University (廈門大學深圳研究院) since August 1999 and an honourable council member of Xiamen University Alumni General Association since April 2015. Prior to that, Mr. Huang acted as the vice chairman of Xiamen University Alumni General Association from August 1999 to April 2015 and the chairman of Beijing Kaixuan Investment Management Co., Ltd. (北京凱旋投資管理有限公司) from 6 February 2007 to 17 December 2010. From November 1984 to December 1998, he served as chief of the general affairs division, chief of the assets division and vice chairman of the alumni association at Xiamen University. He was the secretary to the party committee of the school of economics at Xiamen University from September 1979 to October 1984.

Mr. Huang graduated from the department of economics of Xiamen University (Fujian, PRC) in August 1966, majoring in statistics.

**Mr. ZHOU Zheren (周喆人)**, aged 39, has been appointed as an external Supervisor of our Bank since May 2014. He has been a lawyer at Grandall Law Firm (Shanghai) since August 2015. He has been the chairman of the board of Great China Holdings Limited (listed on the Stock Exchange of Hong Kong Limited, stock code: 141) since June 2016. Prior to that, he served as a lawyer at Shanghai Kyodo Law Firm from April 2014 to August 2015. He served as an independent director of Kangxin (China) Design and Engineering Co., Ltd. from June 2010 to November 2014. He served as an executive director of both Shanghai Sky Fortune Hotel Co., Ltd. and Shanghai Youyi Commerce Co., Ltd. from July 2009 to March 2014. From January 2009 to June 2009, he served as a director and general manager of Shenyang Hejin Holding Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 000633). Mr. Zhou previously worked as a lawyer at Shanghai International Economic & Trade Law Office from September 1999 to December 2008, where he was promoted to become a partner in January 2004.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Mr. Zhou received a bachelor's degree in international economic laws from East China University of Politics and Law (華東政法大學, formerly known as East China College of Political Science and Law (華東政法學院)) (Shanghai, PRC) in July 1999 and a master's degree in laws from the University of Technology (Sydney, Australia) in September 2004. He has been a qualified PRC lawyer upon the approval from the Review Committee of Lawyer Qualification under the PRC Ministry of Justice (中華人民共和國司法部律師資格審查委員會) since February 2000. He is also qualified to act as an independent director in PRC-listed companies as recognised by Shanghai Stock Exchange in November 2010.

**Mr. WEN Zhaoye (溫兆曄)**, aged 42, has been appointed as an external Supervisor of our Bank since May 2014. In addition, he has been chairman of Beijing Zhongfang Zhiye Management Consulting Co., Ltd. since June 2010, vice chairman and secretary general of the China Real Estate Designer Association since December 2008, chairman of Beijing Lingzhi Tongcheng Educational Technology Co., Ltd. since April 2005, and chairman of Beijing Blue Pivot Advertising Co., Ltd. since May 2001. Previously, Mr. Wen was the president of Sooxue from June 2004 to October 2015.

Mr. Wen graduated from China Science Technology Management University (中國科技經營管理大學) in July 2000, majoring in English.

### 3. Biographies of Senior Management

For the biography of Mr. WANG Chunsheng (王春生), please refer to "Directors, Supervisors, Senior Management and Employees – Biographies of Directors".

**Mr. HU Guang (胡光)**, aged 57, has been appointed as the chief internal auditor of our Bank since September 2010, and is primarily in charge of our inspection office and internal audit department and responsible for the internal audit of our Bank. He has also held the positions of secretary to discipline inspection committee since November 2011 and secretary to the party committee of our Shenyang Branch from January 2014 to July 2015. Besides, Mr. Hu worked as a Director of our Bank from June 2010 to May 2014, and concurrently served as president of our Shenyang Branch from January 2013 to January 2014.



## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Mr. Hu has over 30 years of experience in banking business operation and management. He joined Shenyang Cooperative Bank, our predecessor, in December 1987. From December 1987 to April 1991, he worked at the internal audit division of Shenyang Cooperative Bank. From April 1991 to April 1995, he became vice president of the Baogong City Credit Cooperative of Shenyang Cooperative Bank. From April 1995 to February 1999, he served as vice president of our Hongxia Sub-branch (including its predecessor, the Hongxia City Credit Cooperative of Shenyang Cooperative Bank). From February 1999 to January 2002, he served as vice president of our Xianggong Sub-branch. From January 2002 to January 2009, he successively worked as (managing) vice president and president of our Hemu Road Sub-branch. From January 2009 to March 2009, he concurrently worked as president of our Yaming Sub-branch and president of our Faku Sub-branch. From March 2009 to July 2010, he concurrently worked as deputy chief internal auditor and general manager of the internal audit department of our Bank. Prior to joining our Bank, he worked at the Shenyang Branch of the PBOC from October 1980 to December 1987.

Mr. Hu graduated from Liaoning Finance Staff College (遼寧省金融職工大學) (Liaoning, PRC) in August 1991, majoring in finance (correspondence education), and received a master's degree in international trade from Dongbei University of Finance and Economics (formerly known as Liaoning Institute of Finance and Economics (遼寧財經學院)) (Liaoning, PRC) in July 2004. He has been a senior economist as accredited by the Department of Human Resources and Social Security of Liaoning Province since September 2010.

For the biography of Mr. WANG Yigong (王亦工), please refer to “Directors, Supervisors, Senior Management and Employees – Biographies of Directors”.

For the biography of Mr. WU Gang (吳剛), please refer to “Directors, Supervisors, Senior Management and Employees – Biographies of Directors”.

For the biography of Mr. SUN Yongsheng (孫永生), please refer to “Directors, Supervisors, Senior Management and Employees – Biographies of Directors”.

**Mr. ZHANG Yi (張翼)**, aged 46, has been appointed as the chief information officer of our Bank since August 2013 and the general manager of our information technology department since April 2000. He is in charge of our information technology department.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Mr. Zhang has over 25 years of experience and extensive knowledge in information technology industry and financial industry. He joined Shenyang Cooperative Bank, our predecessor, in September 1988, and has held a number of positions at our Bank (including Shenyang Cooperative Bank) since then. From September 1988 to May 1991, he was an office staff member at Shenyang Cooperative Bank. From June 1991 to July 1997, he worked as a staff member and chief of the accounting and computer department at Shenyang Cooperative Bank. From August 1997 to March 2000, he served as deputy (managing) general manager of the information and technology department at our Bank.

Mr. Zhang graduated from Shenyang Ligong University (Liaoning, PRC) in July 2004, majoring in business management, and received a master's degree in software engineering from Dalian University of Technology (Liaoning, PRC) in July 2008. He has been an engineer as accredited by the Personnel Office of Liaoning Province since September 2003.

**Mr. LIU Zhiyan (劉志岩)**, aged 57, has been appointed as the chief financial officer of our Bank since June 2014, and the general manager of the planning and accounting management department of our Bank since April 2009. He is primarily in charge of our planning and accounting management department. He also served as our Supervisor from September 2010 to May 2014.

Mr. Liu has over 30 years of experience in banking business operation and management. He joined the Heping Credit Cooperative of Shenyang Cooperative Bank, our predecessor, in May 1987. From May 1987 to October 1998, he successively served as deputy director and (managing) deputy chief of the accounting department of our Bank (including the Heping Credit Cooperative of Shenyang Cooperative Bank). From November 1998 to March 2009, he successively held the positions of chief of the accounting department of our Bank, president of our Yinhe Sub-branch, general manager of the credit card center and general manager of the audit department of our Bank. Before joining our Bank, he used to work at Industrial and Commercial Bank of China and served as deputy director of the Beishi local branch, deputy director of the Zhongshan Square local branch and deputy director of Hongxia Credit Cooperative from June 1984 to April 1987.

Mr. Liu graduated from the Open University of China (formerly known as China Central Radio and TV University) (Beijing, PRC) in June 2003, majoring in finance. He has been an accountant as accredited by the Personnel Office of Liaoning Province since November 1993.

**Mr. ZHOU Zhi (周峙)**, aged 48, has been appointed as the secretary of the Board of our Bank since February 2015. He is primarily in charge of matters relating to our Bank's information disclosure, coordinating investors relationship, and preparing for shareholders' general meetings and Board meetings in accordance with statutory procedures.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Mr. Zhou has over 20 years of experience in banking business operation and management. He joined the Nanhu Sub-branch of Shenyang Cooperative Bank, the Bank's predecessor, in August 1991. From August 1991 to May 1998, Mr. Zhou successively worked as an employee of the securities department and the City Plaza business department and from May 1998 to May 2005 as assistant to the general manager and deputy general manager of the market development department and deputy director of the development strategy research center of the Bank (including its predecessor). From May 2005 to June 2006, Mr. Zhou served as the deputy director in the president's office of the Bank. From June 2006 to January 2015, Mr. Zhou served as the director of the Supervisors' office of the Bank. Mr. Zhou has served as the deputy director of the development strategy research center of the Bank since June 2006.

Mr. Zhou obtained a master's degree in business administration from Liaoning University in December 2008. Mr. Zhou has been a senior economist as accredited by Human Resources Department of Liaoning Province since 2003.

All our Directors, Supervisors and members of senior management meet the relevant CBRC qualification requirements for their respective positions. For those whose appointments require approval by the CBRC, the approvals have been duly obtained.

#### 4. Biographies of Joint Company Secretaries

**Mr. ZHOU Zhi (周峙)**, aged 48, is one of the joint company secretaries of our Bank and was appointed in February 2015. For the biography of Mr. Zhou, please refer to "Directors, Supervisors, Senior Management and Employees – Biographies of Senior Management".

**Ms. KWONG Yin Ping Yvonne (鄺燕萍)**, aged 61, is one of the joint company secretaries of our Bank and was appointed in June 2014 with her appointment taking effect on the Listing Date.

Ms. Kwong has extensive experience in providing company secretarial and compliance services to numerous private and listed companies. She is a vice president of SW Corporate Services Group Limited, a company focusing on the provision of listing company secretarial and compliance services. She currently serves as the company secretary or joint company secretary of several companies listed on the Hong Kong Stock Exchange.

Ms. Kwong received a bachelor's degree in accounting from Hong Kong Polytechnic University in November 1997. She has been a fellow of The Hong Kong Institute of Chartered Secretaries and a fellow of The Institute of Chartered Secretaries and Administrators since 2012.

## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)**

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### **EMOLUMENT OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS OF THE BANK**

For details of emolument of Directors, Supervisors and the five highest paid individuals of the Bank, please see notes 9 and 10 to the financial statements.

### **EMPLOYEES, EMPLOYEES' COMPENSATION POLICIES AND TRAINING SCHEMES**

As at 31 December 2016, the Bank had 4,824 employees in total.

The Bank has established a performance-based compensation system whereby an employee's compensation is determined based on position and performance review. The Bank contributes to its employees' social insurance and provides housing funds and certain other employee benefits in accordance with the applicable PRC laws, rules and regulations.

According to our development strategies and training plans, the Bank developed and implemented the annual training plan to support our training and enhance staff professionalism. During the Reporting Period, the Bank integrated the training resources of the head office, branches and sub-branches, arranged various special training programmes such as centralised trainings for new business, new system and new products, trainings for middle- to senior-level management, trainings for specialists, trainings for foundation-level staff and trainings for new joiners. The Bank also strengthened knowledge management and construction of internal lecturer team. The Bank conducted training sessions with total enrolments of 68,813.

# CORPORATE GOVERNANCE REPORT

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The Bank strives to improve the transparency and accountability of its corporate governance and ensure high standards of corporate governance to safeguard shareholders' interests and enhance its enterprise value and commitment.

In 2016, the Bank complied with the relevant laws and regulations in all material respects. The Bank also conducted performance appraisals on the Board, senior management and their members, further upgraded its standards of information disclosure and standardised its work on management of investor relations, to enhance the transparency and corporate governance standards of the Bank.

During the Reporting Period, the Bank complied with the code provisions in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules and the Listing Rules governing disclosure of insider information.

Nothing has come to the attention of the Directors to suggest that the Bank was not in compliance with the code provisions set out in the Code during the Reporting Period.

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

## GENERAL MEETING

### Information of General Meetings

In 2016, the Bank held two general meetings, details of which are set out below:

At the 2015 annual general meeting of the Bank held on 13 June 2016, proposals were considered and approved on the matters mainly including the work report of the Board of Directors for 2015, the work report of the Board of Supervisors for 2015, the final financial accounts for 2015 and financial budget report for 2016, the profit distribution plan for 2015, appointment of auditors, general mandate to issue new shares, issuance of tier 2 capital bonds, and adjustment of the relevant matters in relation to the dilution of immediate returns as a result of the A share offering.

At the 2016 first extraordinary general meeting of the Bank held on 13 September 2016, the proposed amendments to the Articles of Association were approved.

The above general meetings were convened in compliance with the procedures as required by the relevant laws and regulations.

### THE BOARD AND SPECIAL COMMITTEES

#### Implementation of Resolutions of General Meetings by the Board

In 2016, the Board implemented the resolutions passed at general meetings regarding, among other things, the proposed plan for the A Share Offering and related matters, the proposed issuance of financial bonds, the profit distribution plan for 2015, the financial budget for 2016, appointment of auditors and amendments to the Articles of Association.

#### Composition of the Board

As at the date hereof, the Board of the Bank comprised a total of 13 Directors, including four executive Directors, namely, Mr. WANG Chunsheng, Mr. WANG Yigong, Mr. WU Gang and Mr. SUN Yongsheng; four non-executive Directors, namely, Mr. LI Yuguo, Mr. LI Jianwei, Mr. ZHAO Weiqing and Mr. LIU Xinfu; and five independent non-executive Directors, namely, Mr. YU Yongshun, Mr. LAU Chi Pang, Mr. BA Junyu, Mr. SUN Hang and Mr. DING Jiming.

The list of Directors (by category of Directors) was disclosed in all corporate communications issued by the Bank in accordance with the Listing Rules.

The Board is responsible for developing the management system of the Bank and monitoring the decisions on business and financial strategies, results and other important matters of the Bank. The Board is accountable to the general meeting. The Board has delegated the powers and duties in relation to management of the Bank to the management. In addition, the Board has also defined respective terms of reference of the audit committee, the nomination and remuneration committee, the strategic development committee, the related party transactions control committee and the risk control committee. Details of such committees are set out in this report.

The Board is also responsible for performing the corporate governance functions. During the Reporting Period, the Board performed the corporate governance functions in accordance with code provision D.3.1 of the Code.

The Bank has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

### **Financial, Business and Family Relationships between Directors, Supervisors and Senior Management**

There are no relationships between each of the Directors, Supervisors and senior management of the Bank, including financial, business, family or other material relationships.

### **Changes in Directors**

Please refer to “Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management” for details of changes in Directors of the Bank.

### **Operation of the Board**

The Board convenes meetings on a regular basis, including regular meetings at least four times a year and other meetings when necessary. Board meetings may be conducted by way of on-site meetings or written resolutions. The agenda for a regular meeting of the Board is prepared after consulting the Directors, and the Board paper and relevant materials for such meeting are usually circulated to all Directors and Supervisors 14 days prior to the date of such meeting. All Directors maintain communication with the secretary to the Board to ensure compliance with the procedures of Board meetings and all applicable rules and regulations.

Detailed minutes of Board meetings are maintained and are available for all attending Directors for their review, comments and signature after the conclusion of such meetings. The minutes of Board meetings are kept by the secretary to the Board and are available for inspection by Directors at any time. A communication and reporting mechanism has been established among the Board, Directors and senior management of the Bank. The president reports regularly to the Board and is overseen by the Board.

Relevant members of the senior management are invited to participate in Board meetings from time to time to provide explanations and answers to inquiries. Directors can express their opinions freely at Board meetings, and major decisions are made after detailed discussions. A Director must abstain from discussion and voting at a Board meeting on any proposal in which he or she is materially interested, and must not be counted in the quorum for such proposal.

The Board has set up an office as its working body, which is responsible for the preparation of general meetings, Board meetings and meetings of the special committees under the Board, information disclosure and other routine matters.

## CORPORATE GOVERNANCE REPORT (Continued)

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### Duties and Powers of the Board

Duties and powers of the Board mainly include, but are not limited to, the following:

- (1) convene and report at general meetings;
- (2) implement resolutions adopted at general meetings;
- (3) make decisions on the Bank's business plans and investment plans and formulate the Bank's operational development strategies;
- (4) formulate the Bank's annual financial budgets and accounts;
- (5) formulate the Bank's proposals on profit distribution and loss recovery plans;
- (6) formulate proposals on the increase or reduction of the Bank's registered capital and the issue and listing of bonds and other securities;
- (7) formulate plans for significant acquisitions, purchase of the Bank's Shares, or merger, division or dissolution or other change to the form of the Bank;
- (8) decide on matters within the scope authorised at general meetings, including major external investments, asset acquisition and sales, pledge of assets, external guarantee, trust management and related transactions;
- (9) decide on the establishment of the Bank's internal management departments and overseas branch office which is not a legal person;
- (10) appoint or remove the Bank's president and secretary to the Board in accordance with the recommendations of the Chairperson of the Board; appoint or remove the members of the Bank's senior management, including the executive vice president and chief financial officer in accordance with the recommendations of the president, and determine their remunerations, rewards and punishment;
- (11) formulate proposals on the remuneration and subsidies of the Directors of the Bank;
- (12) formulate the basic management systems, decide on the policies on risk management, internal control and compliance of the Bank;



## CORPORATE GOVERNANCE REPORT (Continued)

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- (13) formulate amendments to the Articles of Association;
- (14) formulate the information disclosure system of the Bank, incorporate the risk management work of the Bank's regulatory data into daily operation, implement responsibility of various aspects and manage the disclosure of information of the Bank;
- (15) propose at general meetings the engagement, replacement or dismissal of an accounting firm of the Bank;
- (16) supervise and evaluate the work performance of the Directors and senior management of the Bank, listen to the president's work report and inspect the president's work;
- (17) consider any major capital expenditure, contract and commitment which exceeds the expenditure limit set by the Board of Directors for senior management;
- (18) formulate proposals on the sale or transfer of all or substantially all of the Bank's business or assets;
- (19) draw up share incentive and equity repurchase plans of the Bank, and decide on the measures to link employees' salaries with the operational performance of the Bank; and
- (20) other rights conferred by the laws, administrative regulations, departmental rules or the Articles of Association.

Unless otherwise required by the laws, regulations, regulatory authorities and the Articles of Association, the resolutions of the above matters of the Board must be approved by a majority of all the Directors, but in respect of the matters mentioned in paragraphs (5), (6), (7), (8), (10), (13), (17) and (18), the resolutions must be approved by more than two-thirds of all the Directors.

### **Appointment of Directors**

The Directors (including non-executive Directors) are appointed for a term of three years, and are eligible for re-election upon expiry of their term of office, provided that the term of office of an independent non-executive Director must not be more than six years on an accumulative basis.

## CORPORATE GOVERNANCE REPORT (Continued)

### Board Meetings

Pursuant to the Code, the Board is required to convene regular meetings at least four times a year and at least once in each quarter. Such regular meetings do not include obtaining Board consent through circulating written resolutions.

In 2016, the Board convened six meetings in total (including written resolutions), at which 36 proposals were considered and approved, and three matters were heard, on the matters mainly including amendments to the Articles of Association, financial report and profit distribution etc.

Attendance records of the Directors at the Board meetings, meetings of the special committees under the Board and general meetings held in 2016 are set out below:

Members of the Board	Attendance in person/by proxy/required attendance (times)						
	Board	Audit Committee	Nomination and Remuneration Committee	Strategic Development Committee	Related Party Transactions Control Committee	Risk Control Committee	General Meetings
<b>Executive Directors</b>							
WANG Chunsheng	5/1/6			2/0/2	2/0/2		0/0/2
WANG Yigong	6/0/6					2/0/2	2/0/2
WU Gang	6/0/6			2/0/2			2/0/2
SUN Yongsheng	6/0/6					2/0/2	2/0/2
<b>Non-executive Directors</b>							
LI Yuguo	4/2/6	3/0/3		2/0/2			0/0/2
LI Jianwei	6/0/6	3/0/3			2/0/2		0/0/2
ZHAO Weiqing	5/1/6			1/1/2		1/1/2	1/0/2
LIU Xinfu	4/2/6			2/0/2			0/0/2
<b>Independent non-executive Directors</b>							
YU Yongshun	6/0/6	3/0/3				2/0/2	2/0/2
LAU Chi Pang	5/1/6	3/0/3	1/1/2				0/0/2
BA Junyu	6/0/6		2/0/2		2/0/2	2/0/2	2/0/2
SUN Hang	6/0/6		2/0/2		2/0/2		2/0/2
DING Jiming	6/0/6	3/0/3			2/0/2		0/0/2
<b>Former Director</b>							
ZHANG Yukun	2/1/3		1/0/1	1/1/2			1/0/2
YANG Yuhua	6/0/6		2/0/2	2/0/2			1/0/2

## CORPORATE GOVERNANCE REPORT (Continued)

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- Notes:*
1. Directors who were involved in connected transactions and required to abstain from voting at the relevant meetings are deemed as present.
  2. Please refer to “Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management” for details of changes in Directors of the Bank.
  3. Attendance in person includes participation by way of on-site attendance as well as participation by way of electronic means such as telephone and online video conference.

### **Independent Non-executive Directors**

During the Reporting Period, the composition of the Board met the requirements under the Listing Rules regarding the appointment of at least three independent non-executive Directors representing at least one-third of the Board, with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The independent non-executive Directors do not have any business or financial interests, nor hold any management positions, in the Bank. All the current independent non-executive Directors are elected and appointed for a term of three years, and are eligible for re-election upon expiry of their term of office, provided that the term of office of an independent non-executive Director must not be more than six years on an accumulative basis.

The Bank has received the annual confirmation from each independent non-executive Director confirming his independence as required by the Listing Rules. The Bank considers that all independent non-executive Directors are independent.

During the Reporting Period, the Bank’s independent non-executive Directors duly attended the meetings of the Board and the special committees thereof and provided independent and objective advice on various material decisions at the meetings of the Board and relevant special committees by taking advantage of their professional capabilities and industrial experiences. The Bank’s independent non-executive Directors strengthened their communication with the senior management, specific departments and external auditors and thoroughly studied the operation and management of the Bank. They diligently fulfilled their obligations and performed their duties and provided strong support to the Board to make rational decisions and protected the interests of the Bank and its Shareholders as a whole.

## CORPORATE GOVERNANCE REPORT (Continued)

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### **Director's Responsibilities for the Preparation of Financial Statements**

The Directors have acknowledged their responsibility for the preparation of the financial statements of the Bank for the year ended 31 December 2016.

The Directors are responsible for overseeing the preparation of financial statements for each accounting period to make sure such financial statements give a true and fair view of the financial conditions, operation results and cash flows of the Bank.

In preparing the financial statements for the year ended 31 December 2016, the Directors have adopted and consistently applied applicable accounting policies, and exercised prudent and reasonable judgment.

### **Continuous Professional Development Program for Directors**

Each newly appointed Director must receive a comprehensive, formal and tailored induction upon his/her first appointment, to ensure that he/she has a proper understanding of the operations and business of the Bank and that he/she is fully aware of his/her duties and responsibilities under the Listing Rules, applicable laws and regulatory rules.

Training for the Directors must be carried out on an ongoing basis. The Bank encourages all Directors to participate in continuous professional development to develop and update their knowledge and skills.

The Bank also provides the Directors with updates on the Listing Rules and other applicable regulatory requirements from time to time, to ensure that the Directors will make their contribution to the Board with informed and relevant information, abide by the Code and enhance their awareness of sound corporate governance practices.

In addition, the Directors attended a number of seminars and training courses provided by professional institutions engaged by the Bank. In 2016, the seminars and training courses attended by the Directors covered the following topics:

1. Compliance operation of Hong Kong listed companies;
2. The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;
3. Corporate governance and strategy management;

## CORPORATE GOVERNANCE REPORT (Continued)

4. Risk management and internal control;
5. ESG Report Guidelines.

Directors	Topics of Trainings Attended
<b>Executive Directors</b>	
WANG Chunsheng	1, 2, 3, 4
WANG Yigong	1, 2, 3, 4, 5
WU Gang	1, 2, 3, 4, 5
SUN Yongsheng	1, 2, 3, 4, 5
<b>Non-executive Directors</b>	
LI Yuguo	1, 2, 3, 4, 5
LI Jianwei	1, 2, 3, 4
ZHAO Weiqing	1, 2, 3
LIU Xinfu	1, 2, 3
<b>Independent non-executive Directors</b>	
YU Yongshun	1, 2, 3, 5
LAU Chi Pang	1, 2, 3
BA Junyu	1, 2, 3, 4
SUN Hang	1, 2, 3
DING Jiming	1, 2, 3, 4
<b>Former Director</b>	
ZHANG Yukun	1, 2, 3
YANG Yuhua	1, 2, 3

## CORPORATE GOVERNANCE REPORT (Continued)

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### Corporate Governance Functions of the Board

The Board is responsible for establishing sound corporate governance practices and procedures within the Bank. During the Reporting Period, the Board has:

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

### Special Committees under the Board

The Board has the following committees: audit committee, nomination and remuneration committee, strategic development committee, related party transactions control committee and risk control committee. The Board committees have been operated in accordance with their respective terms of reference defined by the Board.

Members of the special committees under the Board had not changed during the Reporting Period, except Ms. Zhang Yukun resigned from the positions of the chairperson and executive director of the Bank, and a member of the nomination and remuneration committee of the Board and, chairperson of the strategic development committee of the Board with effect from 24 September 2016 due to work arrangement. Due to work arrangement, Ms. Yang Yuhua has resigned from the positions of a non-executive director, a member of the nomination and remuneration committee of the Board and a member of the strategic development committee of the Board of the Bank, with effect from 2 March 2017. Please refer to "Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management" for details of changes in Directors of the Bank.

## CORPORATE GOVERNANCE REPORT (Continued)

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### (I) **Audit Committee**

As at 31 December 2016, the Bank's audit committee consisted of five Directors, including Mr. DING Jiming as the chairman, and Mr. YU Yongshun, Mr. LAU Chi Pang, Mr. LI Jianwei and Mr. LI Yuguo as members. The composition of the audit committee complies with Rules 3.10(2) and 3.21 of the Listing Rules and paragraph C3 of the Code.

The primary duties of the audit committee include:

1. examine the Bank's risks and compliance status, accounting policies, financial reporting process and financial status, reviewing the integrity of the Bank's financial information, including financial statements and annual report and accounts, interim reports and quarterly reports (if any), and reviewing the major opinion related to financial reporting as disclosed in the statements and reports.

The audit committee must liaise with the Board and senior management with regard to the above matters and meet at least twice a year with the external auditors. The audit committee must consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must 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;

2. With respect to external auditors:
  - (1) make recommendations to the Board on the appointment, reappointment or removal of the external auditors, reviewing the fees and terms of engagement of the external auditors, and handling any matters relating to the resignation or dismissal;
  - (2) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The audit committee should discuss with the external auditors the nature and scope of the audit and the related reporting obligations before the audit commences;
  - (3) develop and implement policy on engaging external auditors to provide non-audit services;
  - (4) review the audit results letter presented by external auditors to the management, as well as any material queries raised by the auditors to the management about accounting records, financial accounts or monitoring systems, and the management's response;

## CORPORATE GOVERNANCE REPORT (Continued)

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- (5) ensure that the Board will timely respond to the matters raised in the audit results letter presented by external auditors to the management; and
  - (6) act as the key representative body for overseeing the Bank's relations with the external auditors and being responsible for the communications between internal and external auditors to ensure that internal and external audit work has been coordinated.
3. being responsible for the Bank's annual audit and overseeing the senior management to rectify the issues raised in the audit and implement audit recommendations;
4. review and approve the Bank's internal audit system and supervise its implementation, review, evaluate and report to the Board on the internal audit on a regular basis, and ensure that the internal audit department has sufficient resources for operation and proper status;
5. examine the Bank's financial reporting system, risk management system and internal control system and their implementation;
6. urge the senior management to develop and implement anti-money laundering policies, systems and procedures, supervise the work of the anti-money laundering, listen to senior management reports on major anti-money laundering matters and make decisions on the policy adjustments in a timely manner; and
7. other duties required by the laws and regulations, rules and the securities regulatory authority where the Bank's shares are issued and listed, or authorised by the Board.

During the Reporting Period, the audit committee held three meetings, at which 27 proposals were considered, mainly including the 2015 internal audit work report, the engagement of auditors for 2016, the 2015 financial report, the 2015 profit distribution plan, the financial report for the six months ended 30 June 2016, the 2016 interim report and the 2015 market risk audit report. In addition, the audit committee held two meetings with the auditors and a meeting with the auditors in the absence of the management in accordance with the code provisions of the Code.



### **(II) Nomination and Remuneration Committee**

As at 31 December 2016, the Bank's nomination and remuneration committee consisted of four Directors, including Mr. SUN Hang as the chairman, and Mr. LAU Chi Pang, Mr. BA Junyu and Ms. YANG Yuhua as members, with a majority of the members being independent non-executive Directors. Due to work arrangement, Ms. Yang Yuhua has resigned from the positions of a non-executive director, a member of the nomination and remuneration committee of the Board and a member of the strategic development committee of the Board of the Bank, with effect from 2 March 2017.

The primary duties of the nomination and remuneration committee include:

1. review, at least annually, the structure, size and composition (including the skills, knowledge and experience) of the Board, according to the Bank's operation, asset size and ownership structure, and make recommendations with regard to any contemplated changes made to the Board in line with the Bank's development strategy and operation strategy implementations;
2. research and formulate the procedures and standards for electing the Directors and senior management, identify individuals with suitable qualifications for Directors and senior management of the Bank, and make recommendations to the Board;
3. conduct preliminary reviews of the qualifications of potential Directors and senior management, and make recommendations to the Board;
4. assess the independence of the independent non-executive Directors;
5. make recommendations to the Board on the appointment or re-appointment of Directors and succession plan for Directors, in particular, the Chairperson and President of the Bank;
6. develop and review in appropriate cases the Bank's policy concerning diversity of the Board members, and make disclosure of the relevant policy or a summary of the policy in the corporate governance report of the Bank;
7. study and formulate the standards for appraising Directors and senior management and conduct appraisals and put forward proposals to the Bank;

## CORPORATE GOVERNANCE REPORT (Continued)

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8. review the remuneration management policies and systems of the Bank, formulate appraisal, compensation and incentive plans for the Directors and senior management, and make recommendations to the Board and supervise the implementation of the relevant policies, systems and plans. The nomination and remuneration committee must consult the Chairperson or the President of the Bank in respect of the remuneration suggestions of executive Directors and senior executives;
9. review and approve remuneration suggestions by management based on the corporate goals and objectives formulated by the Board;
10. determine the remuneration packages of the executive Directors and senior management under authorisation of the Board, or make suggestions to the Board in respect of the remuneration packages of the executive Directors and senior management;
11. make suggestions to the Board in respect of the remuneration packages of the non-executive Directors;
12. consider the salaries paid by similar banks, time and responsibilities required for the posts and terms of employment of the Bank's other posts;
13. review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment, and ensure that such compensation is consistent with the terms of the contract; if inconsistent, the compensation must be fair and reasonable but not excessive;
14. review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct, and ensure that such compensation is consistent with the terms of the contract; if inconsistent, the compensation must be fair and reasonable;
15. ensure that no Director or any of their associates is involved in deciding his or her own remuneration; and
16. other duties required by the laws and regulations, rules, and the securities regulatory authority where the Bank's shares are issued and listed, or authorised by the Board.

During the Reporting Period, the nomination and remuneration committee held two meetings, at which five proposals were considered, and one matter was heard, on the matters mainly including the performance appraisal for 2015, the appraisal report on the performance of duties by Directors for 2015, and the report on the work of independent non-executive Directors for 2015.

## CORPORATE GOVERNANCE REPORT (Continued)

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The diversity policy of the Board is summarised as follows:

The Board believes that a board of directors with a diverse composition will enable the Bank to, in a more efficient manner, improve the work quality of the Board, understand and meet customer needs and enhance decision-making ability of the Board. In selecting candidates, the Board and the nomination and remuneration committee consider a large number of factors including but not limited to gender, age, cultural and educational background, race, professional experience, skills and knowledge and years of service, in order to achieve the diversity of members of the Board. The nomination and remuneration committee reports annually on the composition of the Board from the perspective of diversity, and monitors the implementation of this policy.

As at the date hereof, the Board comprises 13 Directors, including one person who is ordinarily resident in Hong Kong. The Board is diverse in terms of nationality, professional background and skills of its members.

### **(III) Strategic Development Committee**

As at 31 December 2016, the Bank's strategic development committee consisted of six Directors, including Mr. LI Yuguo, Mr. ZHAO Weiqing, Ms. YANG Yuhua, Mr. LIU Xinfu, Mr. WANG Chunsheng and Mr. WU Gang as members. Due to work arrangement, Ms. Yang Yuhua has resigned from the positions of a non-executive director, a member of the nomination and remuneration committee of the Board and a member of the strategic development committee of the Board of the Bank, with effect from 2 March 2017.

The primary duties of the strategic development committee include:

1. review and provide advice to the Board on the Bank's mid- and long-term development strategies;
2. supervise and assess the implementation of the Bank's development strategies;
3. review and provide advice to the Board on the annual budget and final accounts;
4. supervise and inspect the implementation of annual operation plans and investment plans;
5. review the strategic capital allocation (such as capital structure, capital adequacy ratio) and the objectives of assets and liabilities management;
6. review the Bank's plans for establishment of branches and sub-branches, material investment and financing, disposal of assets, mergers and acquisitions;

## CORPORATE GOVERNANCE REPORT (Continued)

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7. inspect and assess the integrity of the Bank's corporate governance structure; and
8. review the Bank's information technology strategic plan and annual business continuity management plan.

During the Reporting Period, the strategic development committee held two meetings, at which 15 proposals were considered on the matters mainly including work review for the year of 2015 and work plan for the year of 2016, the report of the Board of Directors for 2015, institutional development plan for 2016, the evaluation report for capital adequacy ratio for 2015, matters related on adjustment of dilution of current returns by initial public offering of RMB ordinary shares(A shares), report on execution of green credit strategy for 2015, half-yearly work report for consumer right protection for 2016, implementation of drill for switching disaster back-up system for 2016.

### **(IV) Related Party Transactions Control Committee**

As at 31 December 2016, the Bank's related party transactions control committee consisted of five Directors, including Mr. BA Junyu as the chairman, and Mr. WANG Chunsheng, Mr. SUN Hang, Mr. DING Jiming and Mr. LI Jianwei as members.

The primary duties of the related party transactions control committee include:

1. identify related parties of the Bank and report to the Board of Directors and the Board of Supervisors, and notify the relevant departments of the Bank of the related parties;
2. conduct review of related party transactions subject to review by the Board and submit such related party transactions to the Board for review, or review the related party transactions within its scope of authority;
3. supervise related party transactions conducted by the Bank; and
4. review the Bank's annual related party transactions and the plan for related party transactions control, and submit the findings to the Board for review.

During the Reporting Period, the related party transactions control committee held two meetings, at which seven proposals were considered on the matters mainly including 2015 annual review of related party transactions and the 2016 control plan for related party transactions, and identifying related parties as at the end of 2015.

### (V) *Risk Control Committee*

As at 31 December 2016, the Bank's risk control committee consisted of five Directors, including Mr. YU Yongshun as the chairman, and Mr. WANG Yigong, Mr. BA Junyu, Mr. ZHAO Weiqing and Mr. SUN Yongsheng as members.

The primary duties of the risk control committee include:

1. ensure the effectiveness of the Bank's risk management system and that the risks faced by the Bank's business are under control;
2. review and amend the Bank's policies and reports of risk management; and conduct supervision and evaluation on its implementation in accordance with the Bank's general strategy;
3. conduct regular review of the risk report submitted by the senior management;
4. ensure that necessary measures are adopted by the senior management to identify, evaluate, measure, detect, control and mitigate risks;
5. review and approve the Bank's compliance policies, conduct regular review of the compliance risk report submitted by the senior management, and supervise the implementation of the compliance policies; and
6. conduct regular review of the Bank's information technology risk management report and the Bank's business continuity assessment report.

During the Reporting Period, based on the overall risk management strategies of the Bank, the risk control committee reviewed and amended the Bank's risk management policies, regularly reviewed the risk reports submitted by the senior management to further understand the Bank's risk management work and the effectiveness of relevant measures, and made recommendations to the Board.

## CORPORATE GOVERNANCE REPORT (Continued)

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During the Reporting Period, the risk control committee held two meetings, at which 12 proposals were considered on the matters mainly including the 2015 risk incident detection and inspection report, 2016 incident prevention plan, 2015 comprehensive risk management report, 2015 compliance risk management report, 2015 information technology risk management report, 2015 liquidity risk analysis report, 2015 anti-money laundering risk management report, pressure testing work plan and 2016 business continuity plan. Such work mainly focused on (1) strengthening comprehensive risk management, especially continuing the construction of a comprehensive risk management system consistent with the Bank's development strategies, operational scale, business scope and risk prevention; (2) strengthening the Bank's capabilities of specific risk management, such as integrating liquidity risk management into the Bank's strategic management, constantly enhancing information technology management, reviewing compliance risk management report, and reviewing anti-money laundering risk management report; and (3) emphasising internal control management, especially reviewing the internal control evaluation report and revising the stress testing management measures.

### BOARD OF SUPERVISORS

#### Composition of the Board of Supervisors

As at the end of the Reporting Period, the Board of Supervisors comprised nine Supervisors, including three shareholder representative Supervisors, namely, Mr. CHEN Zhaogui, Mr. PAN Wenge and Ms. SUN Yi, three external Supervisors, namely, Mr. HUANG Lianguai, Mr. ZHOU Zheren and Mr. WEN Zhaoye; and three employee representative Supervisors, namely, Mr. YANG Lin, Mr. HAN Xuefeng and Mr. SHI Yang.

#### Chairman of the Board of Supervisors

Mr. YANG Lin serves as the chairman of the Board of Supervisors and is responsible for organisation and performance of duties of the Board of Supervisors.

#### Meetings of the Board of Supervisors

In 2016, the Board of Supervisors held a total of four meetings, at which 23 proposals were considered and approved on matters including work report of the Board of Supervisors, supervision and inspection report, periodic report, comprehensive risk management report, compliance risk management report, final financial accounts report, profit distribution plan and performance appraisal on the Directors, Supervisors and senior management of the Bank.

## CORPORATE GOVERNANCE REPORT (Continued)

During the Reporting Period, the external Supervisors performed their duties in accordance with the laws, regulations, the Articles of Association of the Bank and the Rules of Procedures of the Board of Supervisors. They duly performed their supervisory duties, exercised their supervisory power according to the laws and effectively exerted their supervision and counter-balance functions in corporate governance.

Attendance records of the Supervisors at the meetings of the Board of Supervisors and the committees under the Board of Supervisors during the Reporting Period are set out below:

Members of the Board of Supervisors	Attendance in person/by proxy/required attendance (times)		
	Board of Supervisors	Supervision Committee	Nomination Committee
YANG Lin	4/0/4	2/0/2	1/0/1
HAN Xuefeng	4/0/4		1/0/1
SHI Yang	4/0/4	2/0/2	
CHEN Zhaogui	3/1/4		1/0/1
PAN Wenge	4/0/4	2/0/2	
SUN Yi	4/0/4	2/0/2	
HUANG Liangkuai	4/0/4		1/0/1
ZHOU Zheren	3/1/4	2/0/2	
WEN Zhaoye	4/0/4		1/0/1

*Note:* Attendance in person includes participation by way of on-site attendance as well as electronic means such as telephone and online video conference.

### Committees under the Board of Supervisors

The Bank has also established two committees under the Board of Supervisors: a supervision committee and a nomination committee. The committees operate in accordance with terms of reference established by the Board of Supervisors.

#### (I) *Supervision Committee*

As at 31 December 2016, the Bank's supervision committee under the Board of Supervisors consisted of five Supervisors, including Mr. ZHOU Zheren as the chairman, and Mr. YANG Lin, Mr. SHI Yang, Ms. SUN Yi and Mr. PAN Wenge as members.

## CORPORATE GOVERNANCE REPORT (Continued)

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The primary duties of the supervision committee include:

1. draft specific plans on supervising and examining the Bank's financial activities, operating decisions, internal control and risk management with the authorisation of the Board of Supervisors and based on the needs, put forward them to the Board of Supervisors for consideration and implement such plans upon approval;
2. review and provide advice to the Board of Supervisors on the Bank's annual financial report, annual audit report, profit allocation plan formulated by the Board; and
3. when becoming aware of any unusual operating condition of the Bank, or upon the occurrence of significant contingencies or major risk events, formulate investigation plans according to the decision of the Board of Supervisors, and if necessary, organising relevant staff or engaging intermediaries, such as accounting firms and law firms, for assistance.

During the Reporting Period, the supervision committee held two meetings, at which 14 proposals were considered on the matters mainly including work review for the year of 2015 and work plan for the year of 2016, 2015 comprehensive risk management report, 2015 internal control evaluation report, the financial report for 2015, 2015 supervision and appraisal report, the 2015 final accounts and 2016 financial budget report as well as the 2015 profit distribution plan.

### **(II) Nomination Committee**

As at 31 December 2016, the Bank's nomination committee under the Board of Supervisors consisted of five Supervisors, including Mr. WEN Zhaoye as the chairman and Mr. YANG Lin, Mr. HAN Xuefeng, Mr. CHEN Zhaogui and Mr. HUANG Liangkuai as members.

The primary duties of the nomination committee include:

1. provide advice to the Board of Supervisors on the composition and members of the Board of Supervisors based on the Bank's operational and management status, total asset value and shareholding structure;
2. research the procedures and criteria for selecting Supervisors, conduct preliminary review on the qualifications of Supervisor candidates, and provide advice to the Board of Supervisors;
3. seek qualified supervisor candidates;
4. supervise the procedures for selection and appointment of Directors;



## CORPORATE GOVERNANCE REPORT (Continued)

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5. conduct comprehensive evaluation on the work performance of Directors, Supervisors and senior management and report to the Board of Supervisors; and
6. supervise the scientificity and reasonableness of the remuneration management system and policies of the Bank and the remuneration packages for the senior management.

During the Reporting Period, the nomination committee held one meeting, at which the appraisal report on the performance of duties by Directors, Supervisors and senior management for 2015 was considered.

### SENIOR MANAGEMENT

The senior 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 senior management and the Board is in strict accordance with the Articles of Association and other corporate governance documents of the Bank.

The President has the right to organise and develop business and management activities in accordance with the laws, regulations, rules, the Articles of Association and under the authorisation of the Board. The President has the following functions and powers:

1. take charge of the business operation and management of the Bank, organise the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors;
2. submit annual business plans and investment proposals to the Board of Directors on behalf of the senior management, and organise the implementation of Board resolutions, annual plans of the Bank and investment proposals upon approval by the Board of Directors;
3. draft proposals on the establishment of the Bank's internal management departments;
4. set up the Bank's basic management system;
5. formulate the Bank's specific regulations;
6. propose to the Board of Directors to engage or dismiss the vice presidents and chief financial officer;
7. decide to engage or dismiss management other than those to be engaged or dismissed by the Board of Directors;
8. authorise the senior management of the Bank and persons in charge of internal departments and branches to conduct operational activities;

## CORPORATE GOVERNANCE REPORT (Continued)

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9. formulate proposals on wages, benefits, rewards and punishment of the Bank's staff, and decide on their appointment and dismissal;
10. adopt emergency measures when any major emergency, such as bank run, arises and promptly report them to the banking regulatory authority of the State Council and the Board of Directors and the Board of Supervisors; and
11. other powers and rights conferred by the Articles of Association and by the Board of Directors.

Remuneration paid to the senior management (excluding the Directors) by bands for the year ended 31 December 2016 is set out below:

Remuneration bands	Number of individuals
Nil to RMB2,000,000	0
RMB2,000,001 to RMB3,000,000	0
RMB3,000,001 to RMB4,000,000	4

### DELEGATION OF POWER BY THE BOARD

The Board and the management led by the President exercise their respective powers in accordance with their responsibilities as set out in the Articles of Association. Apart from implementing resolutions of the Board, the management takes charge of the daily operation and management of the Bank. Major capital expenditure projects must be approved by the Board through the annual budget proposal and then be implemented. Any projects that are either not included in the budget proposal, or included in the budget proposal but without detailed expenditures, will be decided by the management with the authorisation by the Board.

Such other matters delegated by the Board to the management include loans and guarantees, related party transactions, mortgage financing and guarantees, inter-bank financing business, acquisition of fixed assets, disposal of assets, disposal of non-performing assets and mortgage assets, write-off of assets, donations to external bodies, and establishment, merger and relocation of non-independent accounting sub-branches, provided that the amount of such transaction does not exceed a certain limit. For details, please refer to "Corporate Governance Report – The Board and Special Committees".

### **CHAIRMAN AND PRESIDENT**

The roles and functions of the Chairman and the President of the Bank are carried out by different persons.

The Chairperson of the Board is responsible for overall strategic planning and presiding over the Board, to ensure that the Board works effectively and timely considers all significant matters. The President is responsible for business development and overall operation and management of the Bank. The President is appointed by and accountable to the Board, and must perform his duties in accordance with the Articles of Association and authorisation of the Board. The roles of the Chairman and the President are separated with a clear division of responsibilities. The management is responsible for the day-to-day operation and management.

During the Reporting Period, the Chairperson held a meeting with the non-executive Directors (including independent non-executive Directors) in the absence of the executive Directors.

### **SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS**

The Bank adopted the Rules for Securities Transactions by Directors, Supervisors and Key Employees of Shengjing Bank Co., Ltd. (the “Rules for Securities Transactions”) regarding securities transactions by Directors, Supervisors and certain key employees on terms not 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.

Having made specific enquiries to all Directors and Supervisors, each of the Directors and Supervisors has confirmed that they complied with the Rules for Securities Transactions during the Reporting Period.

### **EXTERNAL AUDITORS AND AUDITORS’ REMUNERATION**

The audit opinion of the external auditors engaged by the Bank and their responsibilities are set out in the Independent Auditor’s Report.

The Bank engaged KPMG and KPMG Huazhen LLP as the international and domestic auditors of the Bank for 2016, respectively. The fees as agreed to be paid by the Bank to KPMG and KPMG Huazhen LLP for the audit of the financial statements for the year ended 31 December 2016 are RMB3.50 million and RMB1.50 million, respectively.

The Bank agreed to pay KPMG Advisory (China) Limited Beijing Branch for the non-auditing services for the year ended 31 December 2016 a fee of RMB1.80 million.

## INTERNAL CONTROL

### Risk Management and Internal Control

#### (I) *Procedures and System*

The Board is responsible for the establishment and implementation of a sound risk management and internal control system as well as the review of the effectiveness of such system. The Board of Supervisors supervises the establishment and implementation of risk management and internal control by the Board and senior management. The senior management is responsible for the day-to-day operation of risk management and internal control across the Bank. Meanwhile, the Board has established the audit committee, the risk control committee and the related party transactions control committee to fulfill the responsibilities of risk management and internal control and evaluate the effectiveness of such risk management and internal control.

The Board attaches great importance to the construction of risk management and internal control. The Bank has established a risk management system featuring “uniform leadership, vertical management and hierarchical accountability” to identify, assess and manage the major risks related to the Bank. In particular, the Bank complies with the requirements on the establishment of risk management and internal control under, among others, the PRC Commercial Banking Law, the Basic Rules on Enterprise Internal Control (《企業內部控制基本規範》), the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) and the guidelines issued by the Basel Committee on Banking Supervision. Accordingly, the Bank developed a risk management and internal control system which covers such five aspects as internal environment, risk assessment, activity control, information and communication, and internal supervision and is in line with the Bank’s development strategies, operating scale, scope of business and risk appetite. The Board acknowledges that such system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

#### (II) *Annual Review and Review Procedures*

The Board, the Board of Supervisors and senior management constantly pay attention to the effectiveness of risk management and internal control, actively promote relevant rectification and reforms and optimise its system rules, procedures and IT system, thereby encouraging its functional departments and all branches to strengthen risk control in order to improve business efficiency and results.

## CORPORATE GOVERNANCE REPORT (Continued)

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The Board is responsible for the establishment and implementation of a sound risk management and internal control system as well as the review of the effectiveness of such system. During the Reporting Period, in accordance with the PRC Commercial Banking Law, the Law on Supervision of Banking Business, the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》), the Guidelines for the Comprehensive Risk Management of Banking Financial Institutions (《銀行業金融機構全面風險管理指引》) and other legal and regulatory requirements and based on the Measures for Internal Control Assessment of Shengjing Bank, the Risk Reporting Policy of Shengjing Bank and other policies, the Bank organised and conducted comprehensive reviews, adopting such measures as inspection on all major business lines, assessment by risk management department and interviews, with reference to the internal audit and external inspection during the Reporting Period. Such review covered all material risk control aspects of the Bank, including financial, operational and compliance. During the Reporting Period, the Board conducted an annual review of the effectiveness of the Bank's internal control system. The Board reviewed the risk management report once and the internal control report twice. The Board considers the risk management and internal control systems effective and adequate. The Board also believes that the resources, qualifications and experience of staff of the Bank's accounting, internal audit and financial reporting functions as well as their training programs and financial budgets are adequate and appropriate. There was no significant area of concern during the Reporting Period.

### **(III) Procedural Structure for Inside Information**

The Bank adheres to the principles of timeliness, fairness, accuracy, truthfulness and completeness as to its information disclosure. The Bank has established relevant procedures and systems to satisfy the requirements of SFO and other applicable laws on information disclosure. Such procedures and systems are in relation to handling and publishing inside information and carrying out internal inspections. The Bank also constantly improves its efforts in information disclosure and investor relations management, and carries out information disclosures in accordance with applicable laws.

For further details of risk management and internal control of the Bank, please refer to the sections headed "Management Discussion and Analysis – Risk Management" and "Internal Control" in this report.

## COMPANY SECRETARY

As at the end of the Reporting Period, Ms. KWONG Yin Ping Yvonne of SW Corporate Services Group Limited and Mr. ZHOU Zhi, the secretary of the Board of Directors of the Bank, were the joint company secretaries of the Bank. Each of them has complied with the requirements of Rule 3.29 of the Listing Rules by receiving relevant professional training for no less than 15 hours during the Reporting Period. Mr. ZHOU is the primary contact person for Ms. KWONG at the Bank.

### INFORMATION DISCLOSURE

#### Effective Communication with Shareholders

The Bank places great emphasis on communication with the Shareholders, and strives to improve mutual understanding and communication with the Shareholders through various channels including general meeting, results presentation, roadshows, visit reception and telephone enquiries.

#### Amendments to the Articles of Association

Reference is made to (i) the circulars of the Bank dated 8 April 2015 and 29 July 2016 in relation to, among other things, the proposed amendments to the Articles of Association and (ii) the announcements of the Bank dated 26 May 2015 and 13 September 2016 in relation to, among other things, the resolutions on the approvals of such amendments by the Shareholders at the 2014 annual general meeting and the 2016 first extraordinary general meeting of the Bank.

The Articles of Association as proposed to be amended as above were approved by the CBRC Liaoning Bureau on 2 November 2016 and have become effective on the same date.

Reference is also made to (i) the circular of the Bank dated 5 August 2015 in relation to, among other things, the proposed amendments to the Articles of Association in connection with the A Share Offering and (ii) the announcement of the Bank dated 27 August 2015 in relation to, among other things, the resolution on the approval of such amendments by the Shareholders at the 2015 first extraordinary general meeting of the Bank.

The Articles of Association as proposed to be amended as above in connection with the A Share Offering were approved by the CBRC Liaoning Bureau on 2 September 2015 and will become effective from the date on which the Bank's A Shares have been listed. The listing of the Bank's A Shares is subject to the approval by China Securities Regulatory Commission.

### SHAREHOLDERS' RIGHTS

#### Request of Shareholders for Convening an Extraordinary General Meeting

The Bank effectively protects shareholders' rights in strict compliance with regulatory regulations and its corporate governance system.

## CORPORATE GOVERNANCE REPORT (Continued)

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Shareholders individually or in aggregate holding 10% or more of the Bank's voting shares have the right to request in writing the Board of Directors to convene an extraordinary Shareholders' general meeting or a class shareholder meeting. The Board of Directors shall grant feedback in writing of whether to convene the extraordinary shareholders' general meeting or class shareholder meeting within 10 days from the receiving date of such request in accordance with the laws, administrative regulations and the Articles of Association. The shareholding of the above shareholders is based on their shareholdings on the date such request is proposed in writing.

The Board of Directors shall give notice of a shareholders' general meeting or a class shareholder meeting within five days from adoption of the resolution of the Board upon agreeing to convene an extraordinary shareholders' general meeting or a class shareholder meeting and any change to the original proposals stated in the notice shall obtain the consent of the relevant shareholders.

If the Board of Directors decides against the convening of an extraordinary Shareholders' general meeting or a class shareholder meeting, or the Board of Directors fails to grant feedback within 10 days from receiving the proposal, shareholders individually or in aggregate holding 10% or more of the Bank's voting shares are entitled to propose for convening an extraordinary Shareholders' general meeting or a class shareholder meeting to the Board of Supervisors in writing.

The Board of Supervisors shall give notice of a Shareholders' general meeting or a class shareholder meeting within five days from adoption of the resolution upon agreeing to convening an extraordinary Shareholders' general meeting or a class shareholder meeting and any change to the original proposals stated in the notice shall obtain the consent of the relevant shareholders.

If the Board of Supervisors fails to issue notice of the Shareholders' general meeting or class shareholder meeting, the Board of Supervisors will be deemed not to convene or preside over the Shareholders' general meeting or class shareholder meeting and such a meeting may be convened and presided over by shareholders individually or in aggregate holding 10% or more of the Bank's voting shares for at least ninety consecutive days.

Shareholders may refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for details.

### **Proposals at General Meetings**

The Board and the Board of Supervisors as well as shareholders individually or collectively holding 3% or more voting shares of the Bank have the right to put forward proposals at a general meeting of the Bank. Shareholders may refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for details.

## CORPORATE GOVERNANCE REPORT (Continued)

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Shareholders may refer to Article 90 of the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for details of the general methods and procedures for nominating Directors and Supervisors.

### RELATIONSHIP WITH KEY STAKEHOLDERS

The Bank considers its employees as its core assets. The Bank has established a performance-based compensation system to encourage a fair and friendly working environment. The Bank has also developed and implemented proper strategies and plans to support the career path and professional advancement of its employees.

Paying close attention to the customers' demands, the Bank has continuously diversified its products and services as well as expanded its sales channels, with a view to optimising the customer experience and expanding its client base. The Bank will continue its endeavors to provide its customers with quality products and services.

### INVESTOR RELATIONS

Shareholders and investors may send enquiries to the Board as follows:

Office of the Board, Shengjing Bank Co., Ltd.

No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC

Tel: +86 (24) 2253 5633

Fax: +86 (24) 2253 5930

E-mail: [dongshihui@shengjingbank.com.cn](mailto:dongshihui@shengjingbank.com.cn)

Principal place of business in Hong Kong of Shengjing Bank Co., Ltd.:

Units 08–09, 18/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong

### SHAREHOLDERS' ENQUIRIES

Any enquiries related to your shareholding of H Shares, including transfer of shares, change of address, loss reporting of share certificates and dividend notes, should be sent in writing to the following address:

Computershare Hong Kong Investor Services Limited

17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Tel: (852) 2862 8555

Fax: (852) 2865 0990



## CORPORATE GOVERNANCE REPORT (Continued)

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Any enquiries related to your shareholding of Domestic Shares, including transfer of shares, change of address, loss reporting of share certificates and dividend notes, should be sent in writing to the following address:

Office of the Board, Shengjing Bank Co., Ltd.

No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC

Tel: +86 (24) 2253 5633

Fax: +86 (24) 2253 5930

### **ADDITIONAL INFORMATION**

The Bank currently holds a Financial Institution License (institution number: B0264H221010001) issued by the CBRC Liaoning Bureau, and a Business License (credibility code: 91210100117809938P) issued by the Administration for Industry and Commerce of Shenyang. 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 banking and/or deposit-taking business in Hong Kong.

# REPORT OF THE BOARD OF DIRECTORS

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The Board of the Bank is pleased to present the Report of the Board of Directors together with the audited financial statements of the Bank for the year ended 31 December 2016.

## PRINCIPAL BUSINESS

The Bank is engaged in banking businesses and related financial services.

## BUSINESS REVIEW

A review of the Bank's business during the Reporting Period is set out in the "Management Discussion and Analysis" section. Compliance with relevant laws and regulations which have a significant impact on the Bank can be found throughout this report, in particular, the "Corporate Governance Report". In addition, the Bank's environmental policies are discussed in the "Social Responsibility Report".

## PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties faced by the Bank are set out in "Management Discussion and Analysis – Risk Management".

## IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

There are no important events affecting the Bank that have occurred since the end of the Reporting Period.

## FUTURE DEVELOPMENT IN THE BANK'S BUSINESS

Please refer to "Management Discussion and Analysis – Environment and Prospects" and "Management Discussion and Analysis – Development Strategies".

## PROFITS AND DIVIDEND

The Bank's revenue for the year ended 31 December 2016 and the Bank's financial position as at the same date are set out in the "Financial Statements" section.

## REPORT OF THE BOARD OF DIRECTORS (Continued)

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Pursuant to the resolutions passed at the 2015 annual general meeting of the Bank held on 13 June 2016, the Bank will distribute a cash dividend of RMB2.8 (tax inclusive) for every ten Shares of the Bank in an aggregate amount of RMB1,623.07 million (tax inclusive) to all the Shareholders of the Bank whose names appeared on the register of members on 22 June 2016. Such dividend was denominated in Renminbi. Dividend payable to holders of Domestic Shares was paid in Renminbi, whereas dividend payable to holders of H Shares was paid in Hong Kong dollars. Such dividend was distributed to the Shareholders on 28 July 2016.

The Board has proposed the payment of a cash dividend of RMB2.5 for every ten Shares of the Bank (tax inclusive) for the year ended 31 December 2016 in an aggregate amount of RMB1,449.17 million (tax inclusive) to all the Shareholders of the Bank. The dividend distribution plan will be submitted to the 2016 annual general meeting of the Bank for consideration and approval. If such proposal is approved at the 2016 annual general meeting of the Bank, the dividend will be distributed to holders of Domestic Shares of the Bank and holders of H Shares of the Bank whose names appear on the register of members on Thursday, 25 May 2017. Such cash dividend is expected to be distributed to the Shareholders of the Bank on 14 July 2017.

Such proposed dividend will be denominated in Renminbi. Dividend payable to holders of Domestic Shares will be paid in Renminbi, whereas dividend payable to holders of H Shares will be paid in Hong Kong dollars. The exchange rate of Renminbi to Hong Kong dollars to be adopted will be the average middle rates of the five business days preceding the date of declaration of such dividend (inclusive) (being Tuesday, 16 May 2017, the date of the 2016 annual general meeting of the Bank) as announced by the PBOC.

The register of members of the Bank will be closed from Saturday, 20 May 2017 to Thursday, 25 May 2017 (both days inclusive). In order to be entitled to the final dividend, holders of H Shares of the Bank who have not registered the relevant transfer documents are required to lodge the transfer documents, accompanied by 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 Friday, 19 May 2017.

## REPORT OF THE BOARD OF DIRECTORS (Continued)

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

	2015	2014	2013
	<i>RMB Million, except percentages</i>		
Cash dividend (tax inclusive)	1,623.07	1,594.09	409.6
As a percentage of profit for the year	26.2%	29.5%	8.4%

### ANNUAL GENERAL MEETING OF 2015 AND CLOSURE OF REGISTER OF MEMBERS

The Bank's 2016 annual general meeting will be held on Tuesday, 16 May 2017. In order to determine the holders of H Shares who are eligible to attend and vote at the 2016 annual general meeting of the Bank, the register of members of the Bank will be closed from Sunday, 16 April 2017 to Tuesday, 16 May 2017 (both days inclusive), during which period no transfer of shares will be registered. Holders of H Shares of the Bank who wish to attend and vote at the 2016 annual general meeting of the Bank must lodge all transfer documents accompanied by 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 no later than 4:30 p.m. on Thursday, 13 April 2017.

### CHANGES IN THE RESERVES

Details of the changes in the reserves of the Bank for the year ended 31 December 2016 and reserves available for distribution are set out in the financial statements.

### PLEDGE OF ASSETS

Details of the pledge of assets of the Bank for the year ended 31 December 2016 are set out in the financial statements.

### SUMMARY OF FINANCIAL INFORMATION

The summary of the operating results and assets and liabilities of the Bank for the five years ended 31 December 2016 is set out in the "Financial Highlights".

## REPORT OF THE BOARD OF DIRECTORS (Continued)

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### **DONATIONS**

The charitable and other donations made by the Bank for the year ended 31 December 2016 amounted to approximately RMB4.0506 million.

### **PROPERTY AND EQUIPMENT**

Details of the changes in property and equipment of the Bank for the year ended 31 December 2016 are set out in note 23 to the financial statements.

### **RETIREMENT BENEFITS**

Details of the retirement benefits provided by the Bank to employees are set out in note 32 to the financial statements.

### **SUBSTANTIAL SHAREHOLDERS**

Details of the Bank's substantial shareholders as at 31 December 2016 are set out in "Change in Share Capital and Shareholders – Interests and Short Positions of Substantial Shareholders and Other Persons" and the relevant parts of the notes to the financial statements, respectively.

### **PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES OF THE BANK**

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

### **PRE-EMPTIVE RIGHTS**

There are no provisions in the Articles of Association and the relevant PRC laws for granting pre-emptive rights to Shareholders of the Bank. The Articles of Association provide that the Bank may increase its capital by offering new Shares to non-specific investors for subscription, placing or distributing new Shares to its existing Shareholders, or using any other ways permitted by laws and administrative regulations.

## REPORT OF THE BOARD OF DIRECTORS (Continued)

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### **MAJOR CUSTOMERS**

In 2016, the aggregate amount of operating income generated from the five largest customers of the Bank represented an amount not exceeding 30% of the total operating income of the Bank.

### **USE OF PROCEEDS**

During the Reporting Period, the Bank applied all the proceeds from the initial public offering in accordance with the usage as disclosed in the prospectus – to strengthen our capital base so that we may continue to grow our business.

### **SHARE CAPITAL**

The details of the change in the share capital of the Bank during the year are stated in note 34 to the financial statements.

### **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

The details of the Directors, Supervisors, senior management and employees are stated in the “Directors, Supervisors, Senior Management and Employees” section.

### **CONFIRMATION OF INDEPENDENCE BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Bank has received from each of its independent non-executive Directors the annual confirmation of his independence, and considered that all the existing independent non-executive Directors are independent pursuant to the guidelines set out in Rule 3.13 of the Listing Rules.

## REPORT OF THE BOARD OF DIRECTORS (Continued)

### DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, to the knowledge of the Directors after making reasonable enquiries, the interests or short positions of the Directors, the chief executive and the Supervisors 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 Divisions 7 and 8 of Part XV of the SFO and 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:

#### Domestic Shares

Name	Positions held at the Bank	Nature of interests	Number of Domestic Shares held (share)	Representing percentage with respect to Domestic Shares of the Bank (%)	Representing percentage with respect to the total share capital of the Bank (%)
WANG Chunsheng (王春生)	Executive Director, President	Beneficial owner	6,500	0.0001	0.0001
LI Yuguo (李玉國)	Non-executive Director, Vice Chairman of the Board	Interest of a controlled corporation	400,000,000 <sup>(1)</sup>	9.3986	6.9005
LIU Xinfa (劉新發)	Non-executive Director	Interest of a controlled corporation	190,000,000 <sup>(2)</sup>	4.464	3.278
YANG Lin (楊林)	Employee Representative Supervisor, Chairman of the Board of Supervisors	Beneficial owner	36,274	0.0009	0.0006
HAN Xuefeng (韓學豐)	Employee Representative Supervisor, Vice Chairman of the Board of Supervisors	Beneficial owner	15,681	0.0004	0.0003
SHI Yang (石陽)	Employee Representative Supervisor	Beneficial owner	107,684	0.0025	0.0019
		Interest of spouse	5,722	0.0001	0.0001
WU Gang (吳剛)	Executive Director, Vice President	Beneficial owner	146,149	0.0034	0.0025
CHEN Zhaogui (陳招貴)	Employee Representative Supervisor	Interest of a controlled corporation	200,000,000	4.6993	3.4503

## REPORT OF THE BOARD OF DIRECTORS (Continued)

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Notes: (1) Please refer to “Change in Share Capital and Shareholders – Interests and Short Positions of Substantial Shareholders and Other Persons” for details.

(2) Zhongyou Tianbao was owned as to 80% by Liu Xinfu (劉新發). By virtue of the SFO, Liu Xinfu is deemed to be interested in the Shares held by Zhongyou Tianbao.

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

### **FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

There are no relationships between each of the Directors, Supervisors and senior management of the Bank, including financial, business, family or other material relationships.

### **ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

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

### **DIRECTORS’ AND SUPERVISORS’ INTERESTS IN CONTRACTS AND SERVICE CONTRACTS**

Saved for the continuing connected transactions, which are exempted from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules, as at 31 December 2016 and at any time during the Reporting Period, none of the Directors or Supervisors had any interest, whether directly or indirectly, in any transaction, arrangement or contract (excluding service contracts) of significance in relation to the Bank’s business to which the Bank, or its associated companies, is a party. None of the Directors and Supervisors has entered into a service contract with the Bank that is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).



## REPORT OF THE BOARD OF DIRECTORS (Continued)

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### MANAGEMENT CONTRACT

Save for the service contracts entered into with the management of the Bank, the Bank has not entered into any other contract with any individual, company or body corporate in relation to the management or administration of the whole or any substantial part of any business of the Bank.

### DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

Mr. LIU Xinfu has served as vice chairman of Shenyang Rural Commercial Bank Co., Ltd. (瀋陽農村商業銀行股份有限公司) (“Shenyang Rural Commercial Bank”) since January 2012. Shenyang Rural Commercial Bank is a financial institution primarily engaging in the commercial banking business in Shenyang. Shenyang Rural Commercial Bank engages in the banking business in Shenyang, which competes with certain aspects of the Bank’s business. On the basis that (i) Mr. Liu, as a non-executive director of Shenyang Rural Commercial Bank, does not participate in the daily operation and management of Shenyang Rural Commercial Bank, (ii) Shenyang Rural Commercial Bank has a management team independent of the Bank, and (iii) Mr. Liu is a non-executive Director of the Bank and does not participate in the Bank’s day-to-day management, the Bank and the Directors consider that the roles of Mr. Liu acting as the vice chairman of Shenyang Rural Commercial Bank and a non-executive Director of the Bank at the same time do not have an impact on the business operation of the Bank.

Mr. Liu has undertaken to us that he will continue to comply with the requirements of Rule 8.10(2) of the Listing Rules to disclose the above-mentioned interest and any change thereof other than those disclosed in the Bank’s prospectus in the Bank’s annual report.

### CORPORATE GOVERNANCE

We are committed to maintaining high standards in corporate governance. Our approach to applying the principles and provisions of the corporate governance code are set out in the “Corporate Governance Report”.

### CONNECTED TRANSACTIONS

Transactions between the Bank and the Bank’s connected persons (as defined under the Listing Rules) will constitute connected transactions of the Bank under Chapter 14A of the Listing Rules. However, the relevant connected transactions can be exempted from the reporting, annual review, announcement 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.

## REPORT OF THE BOARD OF DIRECTORS (Continued)

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The definition of connected persons under Chapter 14A of the Listing Rules is different from the definition of related parties under International Accounting Standard 24, “Related Party Disclosures”, and its interpretations by the IASB. Certain related party transactions set out in note 38 to the financial statements also constitute connected transactions or continuing connected transactions as defined under the Listing Rules, but none constitute any discloseable connected transaction as defined under the Listing Rules.

### REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Under the guidance of the relevant policies of the PRC, the Bank endeavors to improve its remuneration management measures and performance evaluation system for Directors, Supervisors and senior management.

The remuneration system for the Directors, Supervisors and senior management adheres to the principle of balancing incentives and restraints, focusing on both short-term and long-term incentives and integrating governmental control with market regulation. Such remuneration system consists of basic salary, annual performance bonus, medium-to long-term incentives, allowances and benefits. The Bank makes a contribution to various statutory pension plans organised by governments at all levels for its Directors, Supervisors and senior management.

### PUBLIC FLOAT

Based on the public information available to the Bank and to the knowledge of the Directors, as at the Latest Practicable Date, the Bank had sufficient public float to comply with the minimum public float requirement by the Hong Kong Stock Exchange.

### TAX RELIEF (H SHAREHOLDERS)

According to the Enterprise Income Tax Law of the PRC and the related provisions of the implementation rules, both effective on 1 January 2008, the Bank shall withhold the enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose names appear on the register of H shareholders on 25 May 2017.

Pursuant to the Notice of the Issues in Relation to the Collection of the Personal Income Tax upon the Abolition of Guo Shui Han [1993] No. 045 (Guo Shui Han [2011] No. 348), the Bank shall withhold personal income tax for the non-resident individual shareholders.

## REPORT OF THE BOARD OF DIRECTORS (Continued)

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For those non-resident individual shareholders who reside in Hong Kong, Macau and other countries or regions that have entered into a taxation treaty with the PRC stipulating a tax rate of 10%, the Bank shall withhold the personal income tax at the rate of 10% for such shareholders.

For those non-resident individual shareholders who reside in countries or regions that have entered into a taxation treaty with the PRC stipulating a tax rate of less than 10%, the Bank shall withhold the personal income tax at the rate of 10% for such shareholders. Should such shareholders demand that amount in excess of the personal income tax payable under the taxation treaty be refunded, the Bank shall apply for the refund from the relevant inland revenue departments, provided however that such shareholders have submitted relevant documents in accordance with the requirements of Measures for Non-resident Taxpayers to Benefit from the Taxation Treaties (No. 60 of the Announcement of the State Administration of Taxation for 2015) within a stipulated time frame.

For non-resident individual shareholders who reside in countries or regions that have entered into a taxation treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Bank shall withhold the personal income tax for such shareholders at the applicable rate as stipulated in the said taxation treaty.

For non-resident individual shareholders who reside in countries or regions that have not entered into any taxation treaty with the PRC and otherwise, the Bank shall withhold the personal income tax at a rate of 20% for such shareholders.

According to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Finance Tax [2014] No. 81), jointly published by the Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission, the Bank shall withhold an individual income tax at the rate of 20% on dividend derived from the H Shares of the Bank acquired through the Shanghai-Hong Kong Stock Connect by mainland individual investors. For dividend received by domestic securities investment funds from investing in the H Shares of the Bank through the Shanghai-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The Bank will not withhold the income tax on dividend derived from the H Shares of the Bank acquired through the Shanghai-Hong Kong Stock Connect for domestic enterprise investors, and those domestic enterprise investors shall report and pay the relevant tax themselves.

## REPORT OF THE BOARD OF DIRECTORS (Continued)

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According to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Finance Tax [2016] No. 27), jointly published by the Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission, the Bank shall withhold an individual income tax at the rate of 20% on dividend derived from the H Shares of the Bank acquired through the Shenzhen-Hong Kong Stock Connect by mainland individual investors. For dividend received by domestic securities investment funds from investing in the H Shares of the Bank through the Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The Bank will not withhold the income tax on dividend derived from the H Shares of the Bank acquired through the Shenzhen-Hong Kong Stock Connect for domestic enterprise investors, and those domestic enterprise investors shall report and pay the relevant tax themselves.

Shareholders are recommended to consult their tax advisers regarding the PRC, Hong Kong and other tax implications arising from their holding and disposal of H Shares of the Bank. The Bank assumes no liability and will not deal with any dispute over the above tax withholding triggered by failure to submit proof materials within the stipulated time frame.

### AUDITORS AND REVIEW OF ANNUAL RESULTS

KPMG and KPMG Huazhen LLP were appointed as the international and domestic auditors of the Bank for 2016, respectively.

KPMG has audited the Bank's financial report for 2016 prepared according to the International Financial Reporting Standards and issued an auditor's report with no qualified opinions. The audit committee of the Bank has reviewed the results of financial statements for the year ended 31 December 2016.

### PERMITTED INDEMNITY PROVISION

The Bank has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) when the report of the Board of Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

By order of the Board  
**Shengjing Bank Co., Ltd.**  
**ZHOU Zhi**  
*Joint Company Secretary*

Shenyang, Liaoning, China  
17 March 2017

# REPORT OF THE BOARD OF SUPERVISORS

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In 2016, the Board of Supervisors duly performed its functions and effectively conducted supervision on performance of duties, financial management, internal control, risk management and information disclosure pursuant to the relevant provisions of the *Company Law of the PRC*, the *Guidelines on the Corporate Governance of Commercial Banks* and the Articles of Association, thus facilitated the prudent corporate governance and healthy development of the Bank.

## I. REPORT ON MAJOR WORK

**Meetings of the Board of Supervisors:** During the Reporting Period, the Board of Supervisors convened four meetings, at which a total of 23 resolutions and reports were reviewed and considered, including the work report of the Board of Supervisors, supervision assessment report, report on comprehensive risk management, compliance risk management report, financial budget and final accounts report, results report, profit distribution plan as well as the appraisal report on the performance of directors, supervisors and senior management. Three meetings were called by the Supervision Committee and the Nomination Committee under the Board of Supervisors to consider 15 resolutions, concerning supervision on duty performance, financial management, profit distribution, risk management, internal control and other business matters. In addition, Supervisors observed the general meetings and the meetings of the Board of Directors, received the resolutions of the general meetings, reviewed the matters to be considered and approved at the Board meetings and monitored the meeting procedures.

**Supervision on Performance of Duties:** During the Reporting Period, the Board of Supervisors further enhanced the supervision on performance of duties of Directors and senior management by appointing Supervisors to attend meetings of the Board of Directors and the senior management and to participate in reviewing the performance of senior management. The Bank also collected records of Directors' and Supervisors' performance of duties, including working hours, job description, opinions, suggestions, etc., as a critical basis for assessing their performance of duties. During the periodical appraisal on senior management of the Bank, Supervisors were appointed to participate in the appraisal process and to form an appraisal group together with Shareholder representatives, Director representatives and staff representatives. Supervisors also conducted overall reviews of the work results, performance of duties, and ethical risks of senior management and proposed suggestions how to further improve their performance. The Board of Supervisors regularly issued comments on the performance of Directors, Supervisors and senior management, which were submitted to the general meetings for review.

## REPORT OF THE BOARD OF SUPERVISORS (Continued)

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**Improvement of Supervision Efficiency:** During the Reporting Period, the Board of Supervisors strengthened the supervision on business strategies, capital management, market value management, financial management, internal control and risk management pursuant to the requirements of the regulatory authorities. The Board of Supervisors proactively put ahead its supervision by assigning employee Supervisors to attend the relevant meetings, such as the Party committee's and the President's work meetings, to closely monitor the rule-making process and the formulation of relevant policies. By timely announcing its opinions and making relevant suggestions, the Board of Supervisors promoted the efficiency of the Bank's monitoring mechanism. Faced with the increasingly complicated business environment and the upward tendency of non-performing loans in the banking industry, the Board of Supervisors brought forward valuable suggestions, such as strengthening post-disbursement risk management, speeding up clearance of distressed assets, ensuring continuous improvement in quality of assets, accelerating the construction of office automation system, boosting administrative efficiency, and advancing the level of meticulous management.

**Special Examination:** During the Reporting Period, at the request of the Board of Supervisors with respect to risk management supervision, the relevant departments conducted special examination on "two reinforcements, two constraints" backward self-examination work, aiming at strengthening the supervision on performance of duties of the Board of Directors and the senior management in their self-examinations, comprehensively carrying out self-examination and self-correction on problems and shortcomings in operation and management and reinforcing accountability system, so as to facilitate the Bank to operate in compliance with laws and regulations.

**Self-reinforcement:** Firstly, the Board of Supervisors actively conducted special investigation and organised Supervisors to conduct special investigations on programs such as cost accounting and performance assessment, banking scheme management, construction of office automation system, thereby fulfilling the duty of supervision and promoting smooth operation of major works of the Bank. Secondly, the Board of Supervisors intensified its communications and interaction with other banks. By inviting other banks to the interbank discussions, the Bank enhanced the communications with other banks in areas of corporate governance, business innovation and risk management and learned from their advanced practices to ameliorate working modes and methods of the Board of Supervisors, so as to facilitate upgrading of the level of the Bank's corporate governance.

### II. INDEPENDENT OPINIONS ON RELEVANT MATTERS

#### 1. Performance of Duties by the Board of Directors and Senior Management

During the Reporting Period, the Board of Directors and senior management duly performed their duties and actively assumed their responsibilities according to the *Guidelines on the Corporate Governance of Commercial Banks* and the Articles of Association, and vigorously forged ahead the Bank's operations, which laid a solid foundation for the solid development of the Bank. Faced with severe and complicated internal and external business situations, the Board of Directors responded quickly and made efficient decisions to firmly maintain steady operation and energetically push forward the comprehensive transformation of operation strategy and the innovative development of business, which gave full play to its role in making business decisions. Senior management worked together to advance pragmatic innovation, conscientiously implemented all decisions made by the Board of Directors and earnestly adopted all sorts of practical measures, which have promoted continuous growth in operating results and achieved the completion of various tasks in 2016.

#### 2. Operations in Compliance with Laws and Regulations

During the Reporting Period, the Bank operated its businesses in compliance with laws. Its decision-making procedures are in compliance with laws, regulations and the provisions of the Articles of Association. The Directors and senior management were faithful, honest and diligent in carrying out their duties. There occurred no acts in material violation of laws and regulations and detrimental to the interests of Shareholders.

#### 3. True Status of Financial Reporting

During the Reporting Period, the Bank has prepared the 2016 financial report according to the International Accounting Standards and relevant provisions of the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited*, and KPMG has audited the same and issued an auditor's report with no qualified opinions. The financial report gave an objective, fair, true and accurate view of the financial position and operating results of the Bank in all material aspects.

## REPORT OF THE BOARD OF SUPERVISORS (Continued)

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### **4. Use of Proceeds**

During the Reporting Period, the Bank maintained a favorable profitability and continued to enhance the replenishment capability of internal capital. Net capital and capital adequacy ratio are adequate to meet the needs of self-development and the regulatory requirements. There was no need for additional fund raising.

### **5. Related-party Transactions**

During the Reporting Period, the pricing of the Bank's related-party transactions was fair and reasonable, in compliance with the *Measures on the Administration of Related-Party Transactions between Commercial Banks and their Insiders and Shareholders*, and not detrimental to the interests of Shareholders or the benefits of the Bank.

### **6. Internal Control**

During the Reporting Period, the Bank continued to improve the organisational structure of internal control and facilitated the establishment of internal control system, which contributed to the steady improvement of internal control level and effective internal control on all material matters. The Board of Supervisors was not aware of any material defect in the Bank's internal control system or its implementation.

### **7. Implementation of the Resolutions of General Meetings**

During the Reporting Period, the Board of Supervisors had no objection to all such reports and resolutions submitted by the Board of Directors to the general meetings for consideration and approval in 2016. The Board of Supervisors monitored the implementation of the resolutions of the general meetings and believed that the Directors had duly implemented the resolutions of the general meetings.

### **8. Performance of Social Responsibility**

During the Reporting Period, the Bank has duly performed its social responsibilities. The Board of Supervisors had no objection to the 2016 Social Responsibility Report of the Bank.



# SOCIAL RESPONSIBILITY REPORT

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Persistently adhering to its core values of “integrity, amicability, ambition, enthusiasm and dedication”, Shengjing Bank is determined to operate its business in a sound way pursuant to relevant laws and regulations. The Bank is also dedicated to standardising its management, constantly implementing reforms, stimulating innovations as well as actively exploring and developing new markets, hence achieving synergised growth in terms of scale and speed as well as quality and efficiency.

The Bank not only maintains stable and rapid development but also actively fulfills its social responsibilities as a financial institution by persistently adhering to the strategic positioning aimed to “serve the local communities, serve small and medium-sized enterprises and serve the general public” and further enhancing its reputation as an honest, responsible, accountable, contributive and charitable bank. It supports regional economic growth by providing financial leverage and thus realises double win with harmony between the Bank and the society.

## **I. BUILDING A REGIONAL HEADQUARTER AND BOOSTING THE ECONOMIC REVITALISATION OF THE NORTHEAST CHINA**

Adhering to the strategic development goal aimed at growing into a “bank that leads the regional economic growth, facilitates emerging new industries, supports small and medium-sized enterprises and provides thoughtful and private services to individual citizens”, the Bank coordinates its own operation and development with supporting regional real economy, facilitating local development and bringing benefits to the general public. In the meantime, by taking advantage of the unique strategic guidance and demonstrative role of a regional headquarter, the Bank actively explores an integrated and comprehensive and innovative financial service model, continuously innovates the ideal and methods to serve the real economy and promotes the regional economic growth and optimisation and upgrading of the industrial structure.

By centering upon the strategic layout of regional economic growth, the Bank keeps providing more financial supports to key industries and pillar enterprises, which have a great impact on driving forward the economic and social development and upgrading of industrial structure, and promotes a new round of comprehensive revitalisation of old industrial bases; pursuant to the development concepts of “Innovation, Coordination, Green, Opening-up and Sharing”, the Bank seeks to encourage the development of strategic emerging industries, meet the financing requirements of enterprises for independent innovation, technological transformation, etc., as well as provide strong financial supports to regional economic restructuring and industrial upgrading; it takes initiative to implement green credit policy and continues to increase credit facilities for key projects on energy conservation and emission reduction, pollution control and treatment, as well as upgrading of reformation and transformation of enterprises’ energy saving and environmental protection technology in pursuit of green, circular, low-carbon economic development.

### II. FOCUSING ON PEOPLE'S WELL-BEING AND DEDICATING TO INCLUSIVE FINANCE

The Bank has actively performed its corporate social responsibility as a regional headquarter by means of giving full play to the allocation and adjustment of credit leverage resources, continuously enhancing its financing support to infrastructure construction related to social well-being and urban public services so as to further build up a brand image featuring financial services for people's well-being. In recent years, the Bank has focused on and continued increasing loans to the construction of infrastructures for social welfare, including water, electricity, gas, heating, public transportation, medical care and hygiene and affordable housing, to solve the livelihood-related issues that are the greatest concern for the general public.

The Bank keeps expanding the range and depth of serving the public and devotedly pushes ahead the construction of inclusive finance. It also promoted and established the first consumer finance company in the Northeast China, namely Shengjing Bank Consumer Finance Co., Ltd, which filled the gap in the field of consumer finance in the Northeast China. At present, the Bank has launched 14 types of consumption loan products under three categories, i.e. *Zu* loans, *Pu* loans and *Zhu* loans, which is a rewarding attempt to stimulate domestic demand and advance consumption upgrading.

The Bank plays a leading role in vigorously encouraging economic development of "agriculture, rural areas and farmers". It has consecutively set up six village banks in Shenbei, Xinmin, Liaozhong and Faku counties of Shenyang City, Jiangbei county of Ningbo City and Baoshan district of Shanghai Municipality and actively guided and promoted the village banks to launch characteristic financial services that support farmers and small-sized enterprises. Besides, it vigorously advocates the development of local small and medium-sized enterprises and meets the demands of the farmers for micro funds, which effectively boosts the local development of "agriculture, rural areas and farmers".

### III. FULFILLING THE CONCEPT OF SERVING THE GENERAL PUBLIC AND EXPANDING COVERAGE OF FINANCIAL SERVICES

The Bank is committed to transforming itself into an agent bank for regional public utilities with well-rounded functions and continues to foster a brand image for the public. It now has successfully launched agency payment services for public utilities, such as medical care and hygiene, education, social security, property management, communication service, transportation service, real estate service, administrative undertakings and urban construction and environmental protection, and acted as the agent to distribute social security funds including medical insurance, unemployment insurance.

The Bank establishes an intimate, all-round and beneficial smart financial system and further optimises the layout of the distribution network. On the basis of the existing 187 institutions and outlets, the Bank explores to advance the “community-based finance” service mode; it also continuously expands the range and depth of servicing. The total number of financial service establishments in communities has reached more than 2,100, and all together over 1,500 intelligent terminals have been placed; it facilitates the construction of “smart bank” and proactively promotes the development of mobile banking, television banking, online banking and Wechat banking, thereby building up a multi-level and full-channel financial service platform.

#### **IV. FULFILLING TAX OBLIGATIONS AND INCREASING TAX CONTRIBUTION**

As the asset size enlarges and the profitability level increases, the total tax payment of the Bank continues to increase. The total tax payment for the year of 2016 is approximately RMB3.980 billion, representing a year-on-year increase of RMB500 million. The number of tax payment was over RMB10 billion in aggregate for the past three years. The tax payment for the Shenyang area, where the head office is based, exceeded RMB3.3 billion and ranked the third tax payer and the first in the financial service industry. Since 2011, the total amount of tax payment by the Bank exceeded approximately RMB13.0 billion and it ranked the first in the financial service industry and among the top 20 largest tax payers of Liaoning Province consecutively for a number of years. Meanwhile, the Bank gives full play to its leading role as a regional headquarter as it actively supports and promotes enterprise development by offering loans and facilitates a large quantity of high-quality tax payment sources in the local areas, which indirectly boosts tax increases and makes remarkable tax contribution to the local society.

## SOCIAL RESPONSIBILITY REPORT (Continued)

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### **V. ENGAGING ITSELF IN SOCIAL WELFARE AND BECOMING AN ETHICAL BANK**

The Bank attaches high importance to the well-being of the general public, upholds the development concept of “sharing” as always, fulfills corporate culture of “devotion”, supports the development of social welfare and charity causes, and carries out activities such as poverty alleviation, assistance to the disabled and charitable donation. In 2016, the Bank was awarded the “Model Unit in Poverty Alleviation in Shenyang City”. The Bank is also concerned with the well-being of its own employees by setting up internal fund for poverty alleviation, sticking to the principle of special funds for special purposes, and distributing subsistence allowances to poverty-stricken employees on a regular basis for many years, as well as providing assistance on issues such as basic livelihood, education for children and treatment of serious diseases to employees in difficulty. In 2016, the Bank granted approximately RMB296,000 to 93 employees with financial difficulties; it also organised targeted poverty alleviation work and formulated poverty-relief plans based on the actual situation of the poverty alleviation targets. It donated RMB270,000 for poverty alleviation in 2016, which effectively improved the self-development of poverty alleviation targets. The Bank continued conducting “Sunshine Students”, a scholarship and internship program, and donated to this program RMB500,000 in 2016 and RMB1.5 million in aggregate for three consecutive years. Over 300 disadvantaged students with excellent academic performance have benefited from this program.

### **VI. PERFORMING AS A RESPONSIBLE BANK AND ENHANCING PROTECTION OF CONSUMER RIGHTS**

In 2016, the Bank launched the “Year of Deepening” aimed at protecting the customer rights and further improved the organisation and management, built a sound system and conducted activities for widespread of financial knowledge. The Bank has promoted the wide-spreading of financial knowledge and achieved the goal of “Year of Deepening”. The Bank attained the highest grades in the performance appraisal and rating for customer right protection conducted by the local office of CBRC in Liaoning Province for two consecutive years; it was awarded the “advanced unit” in the promotion of financial knowledge in the banking industry in Liaoning for the year 2016; it was also awarded the best achievement prize in the “2016 promotion activities of financial knowledge in China’s banking industry”.

In accordance with the Basic Rules on Enterprise Internal Control (《企業內部控制基本規範》), the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制評價指引》) and other laws and regulations as well as the relevant rules of Hong Kong Stock Exchange, the Bank has formulated the Basic Rules on Internal Control of Shengjing Bank (for trial implementation) (《盛京銀行內部控制基本規定(試行)》), which specifies the purpose, principles and organisational structure of internal control, establishes the internal control system consisting of five fundamental factors, namely, internal control environment, risk identification and assessment, internal control activities, information system and communication, and supervision on internal control, and supervises and controls throughout the whole process of all operation and management activities of the Bank. The Board is responsible for ensuring the establishment and implementation of an adequate and effective internal control system for the prudent operation of the Bank under the framework of laws and policies. The Board of Supervisors is responsible for supervising the improvement of the internal control system by the Board and the senior management of the Bank, and the fulfillment of the internal control duties by the Board, the senior management and their members. The senior management is responsible for the execution of the decisions made by the Board, and ensuring the effective performance of all the internal control duties. The compliance management departments at all levels and the independent internal audit departments are responsible for supervising and appraising the Bank's internal control system. All these form an governance and organisational structure of internal control, characteristic of reasonable division of labors, well-defined duties and responsibilities, as well as distinct reporting relations.

During the Reporting Period, the Bank has further perfected its internal control system, made adjustments to the system in accordance with regulatory policies and new developments in laws and regulations, and applied a more rigid compliance audit on newly established institutions and new businesses. This way, the Bank has had all of its businesses and risk areas covered by its system, enhanced the internal control management around the Bank and improved the soundness and effectiveness of its internal control.

The Bank continued to strengthen comprehensive risk management, adhered to prudent and moderate risk control strategies, further advanced the development of the risk control system that is compatible with the Bank's development strategy, operating scale, business scopes and risk characteristics, and kept enhancing the foresight, pertinence and effectiveness of risk management. The Bank also deepened the comprehensive risk management covering all personnel and the whole process and incorporated all kinds of risk such as credit risk, liquidity risk, market risk and operation risk into an integrated risk management system; it strengthened risk assessment and early warning management and prudent risk preference management, established risk management system and controlling procedures covering all businesses and operational steps, drew up emergency response plan for risk disposition in advance, strictly cautioned against clients' performance risk; and it insisted on taking precautionary measures, monitoring during the process and tracking afterwards for management, supervision and rectification by taking a series of risk management and control measures such as risk identification, measurement, supervision and control, in an effort to persistently enhance risk management and control capability and ensure the steady operation of the businesses.

## INTERNAL CONTROL (Continued)

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The Bank conducted unified management over its finance and accounting in accordance with the China Accounting Standards for Business Enterprises (《企業會計準則》), Financial Rules for Financial Enterprises (《金融企業財務規則》), Accounting System of Shengjing Bank (《盛京銀行會計制度》), and other internal control rules. The Bank strictly implemented the accounting system and operational procedures to ensure the authenticity, integrity, legality and accuracy of accounting information. The Bank managed professional qualification of its accounting personnel and followed the principles of separation of duties and mutual constraining and balancing in its position set-up. The Bank utilised the account titles strictly following the accounting instructions and established a complete bookkeeping system where true and accurate accounting information was recorded. The Bank further set up a clear procedure for reimbursements where the duties and responsibilities were clearly defined. As a result, the Bank has disbursed its costs and expenses in a reasonable manner, and its internal management process is clear and its financial management functions have improved.

The Bank insisted on the principles of timeliness, fairness, accuracy, truthfulness and completeness for information disclosure, constantly improved the information disclosure and investor relations management, and conducted information disclosure in compliance with relevant laws and regulations. The Bank maintained timely and smooth communication and exchange of information with regulatory authorities at all levels and created a favourable public opinion atmosphere for the rapid development of its businesses.

The Bank also continuously improved its organisational structure of compliance management and established a developed compliance management system; it continued to enhance its meticulous management of compliance functions, providing strong compliance supports to the operational transition, systematic reform and operational innovation around the Bank. During the Reporting Period, the Bank further strengthened exchange and sharing of compliance information to achieve a sound monitoring and management system of compliance information. The Bank also strengthened the compliance risk audit to identify and assess compliance risks of each business line and thus promoted the development of new businesses in compliance with relevant rules.

The Bank continued to strengthen the internal control system and explore innovative audit and management modes. On top of direct audit by the Head Office, the internal audit systems at the branch level were also promoted to optimise the system development. To do so, the Bank regulated the internal audit monitoring procedure, provided clear auditing standards, improved the proficiency of internal audit staff at the branches and firmly pushed forward the establishment of internal audit departments at its branches. During the Reporting Period, according to the changes in business development, regulatory policies and risk management, the Bank further amended and improved relevant business audit systems, timely revised audit plans by clarifying audit standards, improving working process and directing internal audit personnel to meticulously carry out various kinds of audit work, so as to be in line with the innovation of business types in the industry and changes in regulatory system.

## INTERNAL CONTROL (Continued)

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The Bank attached great importance to the implementation of the Basic Rules on Enterprise Internal Control (《企業內部控制基本規範》) and the supporting guidelines thereof. Firstly, the Bank further improved the comprehensive internal control management system and promoted a standardised management at both the Head Office and all of its branches and sub-branches, which covers the various aspects of the Bank's operations including corporate governance, risk management, credit business, treasury business, bill business, intermediary business, investment business, wealth management business, financial accounting business, anti-money laundering management, connected transactions management, compliance management, internal audit and information technology management. Secondly, the Bank rearranged the organisational structure of internal control and the contents of daily work so as to confirm the internal control duties of the compliance department, risk control department, internal audit department and the functional departments of the Head Office and the branches as well as the business establishments, further clarifying the organisational structure and division of duties and responsibilities for internal control management. Thirdly, the Bank timely tracked the internal control issues identified during the examination of internal audit business so as to urge and supervise the progress of rectification and continuously enhance the internal control management capabilities and standards. Fourthly, the Bank organised and carried out self-assessment of internal control, covering institutions at all corporate and business levels, all the departments of the Head Office and all the branches. The assessment results have shown that the internal control system of the Bank and its implementation can meet the needs of the business development of the Bank and that the internal control system is sound and the relevant measures are carried out effectively.

# INDEPENDENT AUDITOR'S REPORT

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## **Independent auditor's report to the shareholders of Shengjing Bank 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 Shengjing Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 164 to 278, 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 PRC, 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.



# INDEPENDENT AUDITOR'S REPORT (Continued)

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## IMPAIRMENT OF LOANS AND RECEIVABLES

Refer to note 20 and note 21(c) to the consolidated financial statements and the accounting policies on page 203 to page 213.

### The Key Audit Matter

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.

From the Group's perspective, the portfolios which gave rise to the greatest uncertainty in determining provisions 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.

### How the matter was addressed in our audit

Our audit procedures to assess impairment of loans and receivables included the following:

- 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. For the key underlying systems used for the processing of transactions in above processes, we utilised our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant automated controls within these systems. We also assessed the design, implementation and operating effectiveness of the key internal controls over these underlying systems, including controls over access to these systems and controls over data and change management;
- comparing the total balance of the loan grading report and overdue 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 and the overdue report;

# INDEPENDENT AUDITOR'S REPORT (Continued)

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## IMPAIRMENT OF LOANS AND RECEIVABLES (Continued)

Refer to note 20 and note 21(c) to the consolidated financial statements and the accounting policies on page 203 to page 213.

### The Key Audit Matter (Continued)

The determination of the collective provisions 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.

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. Enforceability, timing and means of realisation of collateral has a significant impact on collateral valuation and, therefore, the amount of provisions for impairment losses as at the reporting date.

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.

### How the matter was addressed in our audit (Continued)

- evaluating the validity of the models used and assumptions adopted in the Group's calculation of 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 also 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 re-calculations to assess the amount of collective provisions for impairment losses;
- assessing the 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 slowdown with reference to the borrowers with adverse press coverage. We also selected samples based on other risk criteria and from the Group's overdue report. We selected further samples for credit review from loans classified as "Special Mention" or "Substandard"; 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 the customers' financial information, researching market information about the customers' businesses, 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 or other available data, evaluating the timing and means of realisation of collateral and considering other sources of repayment asserted by management.

# INDEPENDENT AUDITOR'S REPORT (Continued)

## CONSOLIDATION OF STRUCTURED ENTITIES

Refer to note 43 and note 44 to the consolidated financial statements and the accounting policies on page 270 to page 272.

### The Key Audit Matter

Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing a wealth management product, an asset management plan, a trust plan or an asset-backed security.

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.

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 RMB246,811 million whilst, the amounts of assets held by structured entities sponsored by the Group which the Group did and did not consolidate but in which it held a non-equity interest were RMB1,485 million and RMB58,601 million, respectively.

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.

### How the matter was addressed in our audit

Our audit procedures to assess the consolidation of structured entities included the following:

- 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:
  - 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.

## INDEPENDENT AUDITOR'S REPORT (Continued)

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### INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Bank 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 of the Bank 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 of the Bank determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

## INDEPENDENT AUDITOR'S REPORT (Continued)

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### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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

17 March 2017

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Note	2016	2015
Interest income		36,055,533	31,479,529
Interest expense		(22,837,867)	(19,530,998)
<b>Net interest income</b>	3	<b>13,217,666</b>	11,948,531
Fee and commission income		2,121,903	1,350,215
Fee and commission expense		(207,996)	(146,026)
<b>Net fee and commission income</b>	4	<b>1,913,907</b>	1,204,189
Net trading gains/(losses)	5	191,051	(71,645)
Net gains arising from investments	6	892,217	653,510
Net foreign exchange (losses)/gains		(151,337)	426,159
Other operating income	7	50,372	23,412
<b>Operating income</b>		<b>16,113,876</b>	14,184,156
Operating expenses	8	(3,730,598)	(4,102,162)
Impairment losses on assets	11	(3,675,411)	(1,955,377)
<b>Profit before taxation</b>		<b>8,707,867</b>	8,126,617
Income tax expense	12	(1,829,575)	(1,902,790)
<b>Profit for the year</b>		<b>6,878,292</b>	6,223,827
<b>Net profit attributable to:</b>			
Equity shareholders of the Bank		6,864,520	6,211,334
Non-controlling interests		13,772	12,493
		<b>6,878,292</b>	6,223,827

The notes on pages 172 to 278 form part of these financial statements.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

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

	Note	2016	2015
<b>Net profit</b>		<b>6,878,292</b>	6,223,827
<b>Other comprehensive income:</b>			
Items that will not be reclassified to profit or loss			
– Remeasurement of net defined benefit liability		(342)	(2,817)
Items that may be reclassified subsequently to profit or loss			
– Available-for-sale financial assets:			
net movement in the fair value reserve	35(d)	(715,207)	55,282
<b>Other comprehensive income net of tax</b>		<b>(715,549)</b>	52,465
Total comprehensive income		<b>6,162,743</b>	6,276,292
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Bank		6,148,971	6,263,799
Non-controlling interests		13,772	12,493
		<b>6,162,743</b>	6,276,292
Basic and diluted earnings per share (in RMB)	13	<b>1.18</b>	1.07

The notes on pages 172 to 278 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2016	31 December 2015
<b>Assets</b>			
Cash and deposits with central bank	14	71,375,747	63,787,726
Deposits with banks and other financial institutions	15	90,789,790	84,618,382
Placements with banks and other financial institutions	16	21,138,110	1,017,289
Financial assets at fair value through profit or loss	17	–	1,462,016
Derivative financial assets	18	276,546	–
Financial assets held under resale agreements	19	16,039,394	32,252,183
Loans and advances to customers	20	228,880,732	191,531,735
Financial investments:			
Available-for-sale financial assets	21(a)	46,328,907	27,359,926
Held-to-maturity investments	21(b)	171,504,761	51,761,238
Loans and receivables	21(c)	245,532,030	234,508,219
Property and equipment	23	4,808,579	4,268,534
Deferred tax assets	24	1,411,125	464,889
Other assets	25	7,396,926	8,596,363
<b>Total assets</b>		<b>905,482,647</b>	<b>701,628,500</b>
<b>Liabilities</b>			
Borrowings from central bank	26	118,800,000	6,800,000
Deposits from banks and other financial institutions	27	143,378,530	100,617,153
Placements from banks and other financial institutions	28	38,940,901	11,370,469
Derivative financial liabilities	18	14,206	–
Financial assets sold under repurchase agreements	29	40,285,591	47,085,568
Deposits from customers	30	415,246,159	402,379,086
Income tax payable		1,022,797	778,165
Debt securities issued	31	87,289,181	78,485,436
Other liabilities	32	14,130,656	12,397,670
<b>Total liabilities</b>		<b>859,108,021</b>	<b>659,913,547</b>

The notes on pages 172 to 278 form part of these financial statements.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

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

	Note	31 December 2016	31 December 2015
<b>Equity</b>			
Share capital	34	5,796,680	5,796,680
Capital reserve	35	11,855,505	11,855,505
Surplus reserve	35	4,666,968	3,893,846
General reserve	35	9,267,100	6,176,638
Fair value reserve	35	(92,044)	623,163
Deficit on remeasurement of net defined benefit liability	35	(5,468)	(5,126)
Retained earnings	35	14,305,688	12,927,822
<b>Total equity attributable to equity shareholders of the Bank</b>		<b>45,794,429</b>	41,268,528
<b>Non-controlling interests</b>		<b>580,197</b>	446,425
<b>Total equity</b>		<b>46,374,626</b>	41,714,953
<b>Total liabilities and equity</b>		<b>905,482,647</b>	701,628,500

Approved and authorised for issue by the board of directors on 17 March 2017.

**Wang Yigong**

Authorised Legal Representative/  
Executive Director/  
Vice President/Chief Risk Officer

**Liu Zhiyan**

Chief Financial Officer

Company chop

The notes on pages 172 to 278 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank										
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016		5,796,680	11,855,505	3,893,846	6,176,638	623,163	(5,126)	12,927,822	41,268,528	446,425	41,714,953
Profit for the year		-	-	-	-	-	-	6,864,520	6,864,520	13,772	6,878,292
Other comprehensive income		-	-	-	-	(715,207)	(342)	-	(715,549)	-	(715,549)
Total comprehensive income		-	-	-	-	(715,207)	(342)	6,864,520	6,148,971	13,772	6,162,743
Changes in share capital											
- Non-controlling interests of a new subsidiary		-	-	-	-	-	-	-	-	120,000	120,000
Appropriation of profit:											
- Appropriation to surplus reserve	36	-	-	773,122	-	-	-	(773,122)	-	-	-
- Appropriation to general reserve (Note (i))	36	-	-	-	3,090,462	-	-	(3,090,462)	-	-	-
- Cash dividends	36	-	-	-	-	-	-	(1,623,070)	(1,623,070)	-	(1,623,070)
Subtotal		-	-	773,122	3,090,462	-	-	(5,486,654)	(1,623,070)	-	(1,623,070)
Balance at 31 December 2016		5,796,680	11,855,505	4,666,968	9,267,100	(92,044)	(5,468)	14,305,688	45,794,429	580,197	46,374,626

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB99 thousand.

The notes on pages 172 to 278 form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended 31 December 2015  
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank										
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2015		5,646,005	11,106,917	2,733,397	3,545,733	567,881	(2,309)	12,101,929	35,699,553	433,932	36,133,485
Profit for the year		-	-	-	-	-	-	6,211,334	6,211,334	12,493	6,223,827
Other comprehensive income		-	-	-	-	55,282	(2,817)	-	52,465	-	52,465
Total comprehensive income		-	-	-	-	55,282	(2,817)	6,211,334	6,263,799	12,493	6,276,292
Changes in share capital											
– Issue of H-shares	34	150,675	748,588	-	-	-	-	-	899,263	-	899,263
Appropriation of profit:											
– Appropriation to surplus reserve	36	-	-	1,160,449	-	-	-	(1,160,449)	-	-	-
– Appropriation to general reserve (Note (i))	36	-	-	-	2,630,905	-	-	(2,630,905)	-	-	-
– Cash dividends	36	-	-	-	-	-	-	(1,594,087)	(1,594,087)	-	(1,594,087)
Subtotal		-	-	1,160,449	2,630,905	-	-	(5,385,441)	(1,594,087)	-	(1,594,087)
Balance at 31 December 2015		5,796,680	11,855,505	3,893,846	6,176,638	623,163	(5,126)	12,927,822	41,268,528	446,425	41,714,953

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB201 thousand.

The notes on pages 172 to 278 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

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

	Note	2016	2015
<b>Cash flows from operating activities</b>			
Profit before tax		8,707,867	8,126,617
<i>Adjustments for:</i>			
Impairment losses on assets		3,675,411	1,955,377
Depreciation and amortisation		328,020	306,746
Unwinding of discount		(43,380)	(26,074)
Unrealised foreign exchange gains		(51,803)	(457,479)
Net (gains)/losses on disposal of long-term assets		(55)	33
Dividend income		(1,120)	(440)
Net trading (gains)/losses of financial assets at fair value through profit or loss		(191,051)	71,645
Net gains arising from investments		(891,097)	(653,070)
Issuing cost of debt securities		11,200	30,000
Interest expense on debt securities issued		2,888,904	681,686
Interest income on financial investments and financial assets at fair value through profit or loss		(18,468,801)	(12,011,391)
		(4,035,905)	(1,976,350)
<i>Changes in operating assets</i>			
Net (increase)/decrease in deposits with central bank		(4,881,556)	7,823,551
Net decrease in deposits and placements with bank and other financial institutions		8,285,279	11,121,953
Net increase in loans and advances to customers		(40,053,863)	(37,103,475)
Net decrease in financial assets held under resale agreements		4,897,158	12,303,374
Net decrease/(increase) in other operating assets		2,608,670	(143,404)
		(29,144,312)	(5,998,001)
<i>Changes in operating liabilities</i>			
Net increase in borrowings from central bank		112,000,000	–
Net increase in deposits and placements from banks and other financial institutions		70,331,809	16,246,984
Net (decrease)/increase in financial assets sold under repurchase agreements		(6,799,977)	4,995,595
Net increase in deposits from customers		12,867,073	86,435,297
Income tax paid		(2,292,663)	(2,144,719)
Net increase in other operating liabilities		1,097,324	9,338,221
		187,203,566	114,871,378
<b>Net cash flows generated from operating activities</b>		<b>154,023,349</b>	<b>106,897,027</b>

The notes on pages 172 to 278 form part of these financial statements.

## CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

	Note	2016	2015
<b>Cash flows from investing activities</b>			
Proceeds from disposal and redemption of investments		587,903,357	262,207,611
Proceeds from disposal of property and equipment and other assets		500	42
Payments on acquisition of investments		(719,744,086)	(414,895,493)
Payments on acquisition of property and equipment, intangible assets and other assets		(893,954)	(988,685)
<b>Net cash flows used in investing activities</b>		(132,734,183)	(153,676,525)
<b>Cash flows from financing activities</b>			
Capital injection from non-controlling interests of a new subsidiary		120,000	–
Proceeds from capital injection		–	899,263
Net proceeds from new debt securities issued		149,131,940	111,198,677
Repayment of debt securities issued		(140,339,395)	(35,843,241)
Interest paid on debt securities issued		(2,824,038)	(651,219)
Dividends paid		(1,540,573)	(1,555,176)
<b>Net cash flows generated from financing activities</b>		4,547,934	74,048,304
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		131,242	559,969
<b>Net increase in cash and cash equivalents</b>		25,968,342	27,828,775
<b>Cash and cash equivalents as at 1 January</b>		66,587,276	38,758,501
<b>Cash and cash equivalents as at 31 December</b>	37	92,555,618	66,587,276
<b>Net cash flows generated from operating activities include:</b>			
Interest received		19,198,198	19,873,343
Interest paid (excluding interest expense on debt securities issued)		(18,176,494)	(16,402,855)

The notes on pages 172 to 278 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in thousands of Renminbi, unless otherwise stated)*

## 1 BACKGROUND INFORMATION

Shengjing Bank Co., Ltd. (the “Bank”), which was formerly known as Shenyang City Cooperative Bank Co., Ltd., is a joint-stock commercial bank established on 10 September 1997 with the approval of the People’s Bank of China (the “PBOC”) of the PRC according to the notices YinFu [1996] No. 362 “Approval upon the Preparing of Shenyang City Cooperative Bank” and YinFu [1997] No.149 “Approval upon the Opening of Shenyang City Cooperative Bank”.

The Bank changed its name from Shenyang City Cooperative Bank Co., Ltd. to Shenyang Commercial Bank Co., Ltd. according to LiaoyinFuZi [1998] No. 78 issued by Liaoning Branch of the PBOC on 2 June 1998 and ShenYinFu [1998] No.103 issued by Shenyang Branch of the PBOC on 29 June 1998. The Bank changed its name from Shenyang Commercial Bank Co., Ltd. to Shengjing Bank Co., Ltd. according to YinJianFu [2007] No. 68 issued by the China Banking Regulatory Commission (the “CBRC”) of the PRC on 13 February 2007.

The Bank obtained its financial institution licence No. B0264H221010001 from the CBRC Liaoning Branch. The Bank obtained its business license No. 210100000010442 from Shenyang Provincial Administration of Industry and Commerce. The registered office of the Bank is located at No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC. In December 2014, the Bank’s H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 02066). As at 31 December 2016, the share capital of the Bank is RMB5,796.68 million.

The Bank has 18 branches in Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian, Anshan, Benxi, Jinzhou, Yingkou, Huludao, Panjin, Chaoyang, Fushun, Fuxin, Dandong, Liaoyang and Tieling as at 31 December 2016. The principal activities of the Bank and its subsidiaries (collectively referred to as the “Group”) are the provision of corporate and personal deposits, loans and advances, settlement, treasury business and other banking services as approved by the CBRC. The Bank mainly operated in mainland China, which, for the purpose of this report, excludes the Hong Kong Special Administration Region of the PRC (“Hong Kong”), the Macau Special Administration Region of the PRC (“Macau”) and Taiwan.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance and basis of preparation

The Group has prepared the financial statements, which comprise the consolidated statement of financial position of the Group 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 a summary of significant accounting policies and other explanatory notes (the “financial statements”) in accordance with International Financial Reporting Standards (“IFRSs”) and related interpretations, issued by the International Accounting Standards Board (the “IASB”), and the disclosure requirements of the Hong Kong Companies Ordinance. The 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.

Unless stated otherwise, the financial statements are presented in Renminbi (RMB), rounded to the nearest thousands, which is the functional currency of the Group.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (a) Statement of compliance and basis of preparation (Continued)

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgments on 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. Judgments that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 46.

The measurement basis used in the preparation of the financial statements is historical cost, with the exception of financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(e).

#### (b) 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 (held by the Group and other parties) 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 other comprehensive income as an allocation of the total profit or loss and total comprehensive income between non-controlling interests and the equity shareholders of the Bank.

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2(m)). The results of subsidiaries are accounted for by the Bank on the basis of dividends received and receivable.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) 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 of the reporting period. 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.

#### (d) 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.

#### (e) 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.

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.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Financial instruments (Continued)

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

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.

- *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

- (1) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (2) 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Financial instruments (Continued)

##### (i) Recognition and measurement of financial assets and liabilities (Continued)

- *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

- (1) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;
- (2) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (3) 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.

- *Available-for-sale financial assets*

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) 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 of the reporting period 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 financial difficulties;
  - significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
  - a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- *Loans and receivables*

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

##### Individual assessment

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

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

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Financial instruments (Continued)

##### (ii) Impairment of financial assets (Continued)

- Loans and receivables (Continued)

###### Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

###### Homogeneous groups of loans not considered individually significant

For homogeneous groups of loans that are not considered individually significant, the Group adopts a flow rate methodology to collectively assess impairment losses. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgment based on management's historical experience.

###### Individually assessed loans with no objective evidence of impairment on an individual basis

Loans which are individually significant and therefore have been individually assessed but for which no objective evidence of impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and advances that were impaired at the end of the reporting period but which will not be individually identified as such until some time in the future.

The collective impairment loss is assessed after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- the emergence period between a loss occurring and that loss being identified; and
- the current economic and credit environments and the judgment on inherent loss based on management's historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Financial instruments (Continued)

##### (ii) Impairment of financial assets (Continued)

- *Loans and receivables (Continued)*

Individually assessed loans with no objective evidence of impairment on an individual basis (Continued)

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. Rescheduled loans are assessed individually and classified as impaired loans upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan meets specific conditions, it is no longer considered as impaired.

- *Held-to-maturity investments*

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Financial instruments (Continued)

##### (ii) Impairment of financial assets (Continued)

- 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 measured at fair value 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.

##### (iii) 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 financial assets sale and repurchase transactions.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Financial instruments (Continued)

##### (iii) *Derecognition of financial assets and financial liabilities (Continued)*

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.

##### (iv) *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.

##### (v) *Derivative financial instruments*

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in profit or loss.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss.

For less complex derivative products, the fair values are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves. For more complex derivative products, the fair values are mainly determined by quoted prices from dealers.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Interest earned on 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.

#### (g) Fair value measurement

Unless otherwise stated, the Group measure the fair value based on below principles:

Fair value represents 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. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Three valuation techniques mainly include the market approach, the income approach and the cost approach.

#### (h) Associates

An associate is an entity in which the Group or Bank 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(m)). 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.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) Associates (Continued)

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.

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(e)).

#### (i) 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(m)). Construction in progress ("CIP") is stated in the statements of financial position at cost less impairment loss (Note 2(m)).

The cost of a purchased property and equipment asset 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (i) Property and equipment (Continued)

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

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

	Estimated useful lives	Estimated net residual value	Depreciation rate
Premises	20–30 years	3%	4.85%–3.23%
Office equipment	5 years	3%	19.40%
Leasehold improvement	5–10 years	0%	20.00%–10.00%
Others	3–5 years	3%	32.33%–19.40%

#### (j) Lease

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

##### (i) 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.

##### (ii) Assets acquired under finance lease

Where the Group is a lessee under finance leases, an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease, is included in property and equipment as a lease asset. An amount equal to the minimum lease payments is included in liability. The difference between the recorded amount of the leased asset and the recorded amount of the liability shall be accounted for as unrecognised finance charge. The Group recognises financial charge for the current period using the effective interest method. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(m). Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (k) 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(m)). 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:

Software	5–10 years
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#### (l) Repossessed assets

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

#### (m) Provision for impairment losses on non-financial assets

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

- property and equipment
- pre-paid interests in leasehold land classified as being held under an operating lease
- intangible assets
- investments 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (m) Provision for impairment losses on non-financial assets (Continued)

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 first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups and then, to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, 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.

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through 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.

#### (n) 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, unemployment insurance and an annuity plan.

##### *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 government. 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*

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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) Employee benefits (Continued)

##### (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.

###### *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".

#### (o) 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 the reporting period, 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). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) Income tax (Continued)

At the end of the reporting period, 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.

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period. 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 the reporting period, 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.

#### (p) 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(p)(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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (q) 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.

#### (r) 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 reporting period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognised using the rate of interest used to discount future cash flows (“unwinding of discount”) for the purpose of measuring the related impairment loss.

##### (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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) Income recognition (Continued)

##### (iii) Other income

Other income is recognised on an accrual basis.

##### (iv) Government grants

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grant. Government grants related to an asset are initially recognised as deferred income at fair value and then recognised in profit or loss as other income on a straight-line basis over the useful life of the asset. Government grants that compensate the Group for expenses incurred are recognised in profit or loss in the periods in which the expenses are recognised.

#### (s) 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.

#### (t) Dividends

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

#### (u) Related parties

- (a) A person, or a close member of that person's family, is related to the group if that person:
- (i) has control or joint control over the group;
  - (ii) has significant influence over the group; or
  - (iii) is a member of the key management personnel of the group or the group's parent.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (u) Related parties (Continued)

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

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

#### (v) 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 "others" segment if they share a majority of these criteria.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3 NET INTEREST INCOME

	2016	2015
<b>Interest income arising from</b>		
Deposits with central bank	862,163	854,329
Deposits and placements with banks and other financial institutions	3,092,279	4,089,705
Financial assets at fair value through profit or loss	184,720	188,472
Loans and advances to customers		
– Corporate loans and advances	12,895,429	11,841,912
– Personal loans and advances	355,299	360,539
– Discounted bills	136,455	1,466,599
Financial assets held under resale agreements	245,107	855,054
Financial investments	18,284,081	11,822,919
Subtotal	36,055,533	31,479,529
<b>Interest expense arising from</b>		
Borrowings from central bank	(1,727,404)	(9,090)
Deposits and placements from banks and other financial institutions	(3,799,353)	(5,655,315)
Deposits from customers	(14,048,925)	(12,150,221)
Financial assets sold under repurchase agreements	(373,281)	(1,034,686)
Debt securities issued	(2,888,904)	(681,686)
Subtotal	(22,837,867)	(19,530,998)
<b>Net interest income</b>	<b>13,217,666</b>	<b>11,948,531</b>
Of which:		
Interest income arising from impaired financial assets identified	43,380	26,074

Notes:

- (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 31 December 2016 amounted to RMB35,871 million (2015: RMB31,291 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the year ended 31 December 2016 amounted to RMB22,838 million (2015: RMB19,531 million).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 4 NET FEE AND COMMISSION INCOME

	2016	2015
<b>Fee and commission income</b>		
Agency and custody services fees	1,930,858	1,146,861
Settlement and clearing services fees	156,658	175,124
Bank card services fees	34,387	28,230
Subtotal	2,121,903	1,350,215
<b>Fee and commission expense</b>	(207,996)	(146,026)
<b>Net fee and commission income</b>	<b>1,913,907</b>	<b>1,204,189</b>

### 5 NET TRADING GAINS/(LOSSES)

Net trading gains/(losses) include gains/(losses) arising from the buying and selling of, and changes in the fair value of debt securities held for trading purpose and derivative financial instruments.

### 6 NET GAINS ARISING FROM INVESTMENTS

	2016	2015
Dividends from available-for-sale equity investments	1,120	440
Net gains on disposal of available-for-sale financial assets	891,097	653,070
Total	<b>892,217</b>	<b>653,510</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 7 OTHER OPERATING INCOME

	2016	2015
Government grants	16,631	9,654
Asset-backed securities service fees	14,628	–
Handling charge income	1,648	2,240
Net gains/(losses) on disposal of property and equipment	55	(33)
Others	17,410	11,551
Total	50,372	23,412

### 8 OPERATING EXPENSES

	2016	2015
Staff costs		
– Salaries, bonuses and allowances	1,442,776	1,209,652
– Pension and annuity	193,888	172,165
– Other social insurance	133,225	120,759
– Housing allowances	74,377	66,796
– Supplementary retirement benefits	3,268	12,312
– Others	87,001	70,661
Subtotal	1,934,535	1,652,345
Depreciation and amortisation	328,020	306,746
Rental and property management expenses	215,007	189,863
Office expenses	298,349	250,935
Tax and surcharges	618,822	1,401,267
Other general and administrative expenses (Note(1))	335,865	301,006
Total	3,730,598	4,102,162

Note:

(1) Auditor's remunerations were RMB5.00 million for the year ended 31 December 2016 (2015: RMB4.50 million).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' 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:

Name	2016						Actual amount of remuneration paid (pre-tax)
	Fees	Salaries	Discretionary bonuses	Contributions to social pension schemes	Total emoluments before tax	Deferred payment	
<b>Executive directors</b>							
Zhang Yukun (Note (1))	-	1,672	1,300	110	3,082	-	3,082
Wang Chunsheng	-	1,782	1,476	146	3,404	396	3,008
Wang Yigong	-	1,201	2,019	147	3,367	252	3,115
Wu Gang	-	1,200	4,659	158	6,017	252	5,765
Sun Yongsheng	-	1,201	2,019	147	3,367	252	3,115
<b>Non-executive directors</b>							
Liu Xinfa	-	-	-	-	-	-	-
Li Jianwei	56	-	-	-	56	-	56
Li Yuguo	13	-	-	-	13	-	13
Yang Yuhua	56	-	-	-	56	-	56
Zhao Weiqing	50	-	-	-	50	-	50
<b>Independent non-executive directors</b>							
Ba Junyu	-	120	155	-	275	-	275
Yu Yongshun	-	120	118	-	238	-	238
Lau Chi Pang	-	120	86	-	206	-	206
Sun Hang	-	120	111	-	231	-	231
Ding Jiming	-	120	111	-	231	-	231
<b>Supervisors</b>							
Yang Lin	-	1,785	1,526	147	3,458	396	3,062
Han Xuefeng	-	1,047	1,834	146	3,027	108	2,919
Shi Yang	-	1,045	2,123	147	3,315	180	3,135
Chen Zhaogui	19	-	-	-	19	-	19
Pan Wenge	44	-	-	-	44	-	44
Sun Yi	54	-	-	-	54	-	54
Huang Lianguai	-	120	86	-	206	-	206
Zhou Zheren	-	120	130	-	250	-	250
Wen Zhaoye	-	120	111	-	231	-	231
<b>Total</b>	<b>292</b>	<b>11,893</b>	<b>17,864</b>	<b>1,148</b>	<b>31,197</b>	<b>1,836</b>	<b>29,361</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Name	2015						Actual amount of remuneration paid (pre-tax)
	Fees	Salaries	Discretionary bonuses	Contributions to social pension schemes	Total emoluments before tax	Deferred payment	
<b>Executive directors</b>							
Zhang Yukun	–	2,029	1,146	132	3,307	504	2,803
Wang Chunsheng	–	1,785	1,277	132	3,194	396	2,798
Zhao Guangwei (Note (2))	–	400	17	66	483	–	483
Wang Yigong	–	1,201	1,713	132	3,046	252	2,794
Wu Gang	–	1,201	3,073	132	4,406	252	4,154
Sun Yongsheng (Note (3))	–	400	214	44	658	86	572
<b>Non-executive directors</b>							
Liu Xinfa	50	–	–	–	50	–	50
Li Jianwei	38	–	–	–	38	–	38
Li Yuguo	44	–	–	–	44	–	44
Yang Yuhua	50	–	–	–	50	–	50
Zhao Weiqing	25	–	–	–	25	–	25
<b>Independent non-executive directors</b>							
Ba Junyu	–	95	88	–	183	–	183
Yu Yongshun	–	95	44	–	139	–	139
Lau Chi Pang	–	95	40	–	135	–	135
Sun Hang	–	95	75	–	170	–	170
Ding Jiming	–	95	38	–	133	–	133
<b>Supervisors</b>							
Yang Lin	–	1,785	1,357	132	3,274	396	2,878
Han Xuefeng	–	801	1,952	126	2,879	72	2,807
Shi Yang	–	779	2,874	91	3,744	75	3,669
Chen Zhaogui	19	–	–	–	19	–	19
Pan Wenge	44	–	–	–	44	–	44
Sun Yi	50	–	–	–	50	–	50
Huang Liangkuai	–	95	31	–	126	–	126
Zhou Zheren	–	95	31	–	126	–	126
Wen Zhaoye	–	95	31	–	126	–	126
<b>Total</b>	<b>320</b>	<b>11,141</b>	<b>14,001</b>	<b>987</b>	<b>26,449</b>	<b>2,033</b>	<b>24,416</b>

Notes:

- (1) At 24 September 2016, Zhang Yukun resigned as executive director of the Bank.
- (2) At 1 July 2015, Zhao Guangwei resigned as executive director of the Bank.
- (3) At the Bank's 2015 extraordinary General Meeting on 27 August 2015, Sun Yongsheng was elected as executive director of the Bank.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2016, the five individuals with highest emoluments included one director (2015: one director) of the Bank, whose emoluments are disclosed in Note 9. The emoluments for the remaining four (2015: four) highest paid individuals for the year ended 31 December 2016 are as follows:

	2016	2015
Salaries and other emoluments	2,781	3,035
Discretionary bonuses	19,694	16,945
Contributions to pension schemes	610	448
Total	23,085	20,428

The individuals whose emoluments before individual income tax are within the following bands are set out below:

	2016	2015
RMB4,000,001–4,500,000	–	1
RMB4,500,001–5,000,000	1	1
RMB5,000,001–5,500,000	1	–
RMB5,500,001–6,000,000	–	2
RMB6,000,001–6,500,000	1	–
RMB7,000,001–7,500,000	1	–
Total	4	4

### 11 IMPAIRMENT LOSSES ON ASSETS

	2016	2015
Loans and advances to customers	2,744,374	1,416,953
Financial investments classified as loans and receivables	646,000	543,000
Others	285,037	(4,576)
Total	3,675,411	1,955,377

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 12 INCOME TAX EXPENSE

#### (a) Income tax for the year:

	Note	2016	2015
Current tax		2,537,295	2,244,080
Deferred tax	24(b)	(707,720)	(341,290)
Total		1,829,575	1,902,790

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

	Note	2016	2015
Profit before taxation		8,707,867	8,126,617
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		2,176,967	2,031,654
Non-deductible expenses			
– Entertainment expenses		4,355	3,680
– Non-deductible losses from write-offs of loan receivable		–	10,590
– Others		1,923	1,796
		6,278	16,066
Non-taxable income	12(b)(i)	(353,594)	(141,969)
Subtotal		1,829,651	1,905,751
Adjustment for prior years		(76)	(2,961)
Income tax		1,829,575	1,902,790

Note:

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



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 13 BASIC AND DILUTED EARNINGS PER SHARE

	2016	2015
Net profit attributable to equity shareholders of the Bank	6,864,520	6,211,334
Weighted average number of ordinary shares (in thousands)	5,796,680	5,788,424
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	1.18	1.07

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year.

#### (a) Weighted average number of ordinary shares (in thousands)

	2016	2015
Number of ordinary shares as at 1 January	5,796,680	5,646,005
Increase in weighted average number of ordinary shares	–	142,419
Weighted average number of ordinary shares	<u>5,796,680</u>	<u>5,788,424</u>

### 14 CASH AND DEPOSITS WITH CENTRAL BANK

	<i>Note</i>	31 December 2016	31 December 2015
Cash on hand		642,182	619,243
Deposits with central bank			
– Statutory deposit reserves	14(a)	49,579,054	44,626,988
– Surplus deposit reserves	14(b)	20,835,652	18,152,126
– Fiscal deposits		318,859	389,369
Subtotal		<u>70,733,565</u>	<u>63,168,483</u>
Total		<u>71,375,747</u>	<u>63,787,726</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 14 CASH AND DEPOSITS WITH CENTRAL BANK (Continued)

- (a) The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	31 December 2016	31 December 2015
Reserve ratio for RMB deposits	13.5%	14%
Reserve ratio for foreign currency deposits	5%	5%

The six rural banking subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

The statutory deposit reserves are not available for the Group's daily business.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

### 15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

#### Analysed by type and location of counterparty

	31 December 2016	31 December 2015
Deposits in mainland China		
– Banks	89,439,437	83,924,836
– Other financial institutions	4,290	1,849
Deposits outside mainland China		
– Banks	1,346,063	691,697
Total	90,789,790	84,618,382

### 16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

#### Analysed by type and location of counterparty

	31 December 2016	31 December 2015
Placements in mainland China		
– Banks	19,138,110	117,289
– Other financial institutions	2,000,000	900,000
Total	21,138,110	1,017,289

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2016	31 December 2015
Held for trading purpose		
Debt securities at fair value listed outside Hong Kong		
– Policy banks	–	1,462,016

The financial statements classified debt securities traded on China Domestic Interbank Bond Market as listed bonds.

### 18 DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments mainly including forwards and swaps.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

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

#### (a) Analysed by nature of contract

	31 December 2016		
	Notional amount	Fair value	
		Assets	Liabilities
Currency Swaps	14,535,389	251,401	(14,206)
Foreign exchange forwards	4,715,668	22,015	–
Precious metal derivatives	145,640	3,130	–
Total	19,396,697	276,546	(14,206)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 18 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

#### (b) Analysed by credit risk-weighted amount

	31 December 2016	31 December 2015
Currency Swaps	36,338	–
Foreign exchange forwards	33,375	–
Precious metal derivatives	365	–
<b>Total</b>	<b>70,078</b>	<b>–</b>

The credit risk-weighted amount represents the counterparty credit risk associated with derivative transactions and is calculated with reference to the guidelines issued by the CBRC.

### 19 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

#### (a) Analysed by type and location of counterparty

	31 December 2016	31 December 2015
In mainland China		
– Banks	15,244,894	32,252,183
– Other financial institutions	794,500	–
<b>Total</b>	<b>16,039,394</b>	<b>32,252,183</b>

#### (b) Analysed by type of security held

	31 December 2016	31 December 2015
Debt securities held under resale agreements	16,039,394	25,313,599
Bills held under resale agreements	–	6,938,584
<b>Total</b>	<b>16,039,394</b>	<b>32,252,183</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 20 LOANS AND ADVANCES TO CUSTOMERS

#### (a) Analysed by nature

	31 December 2016	31 December 2015
Corporate loans and advances	223,598,360	188,488,441
Personal loans and advances		
– Residential mortgage	4,519,168	4,024,944
– Personal consumption loans	2,502,220	1,255,590
– Personal business loans	534,159	893,651
– Credit cards	523,837	634,569
– Others	81,030	88,310
Subtotal	8,160,414	6,897,064
Discounted bills	3,657,876	74,860
Gross loans and advances to customers	235,416,650	195,460,365
Less: Provision for impairment losses		
– Individually assessed	(2,053,429)	(286,754)
– Collectively assessed	(4,482,489)	(3,641,876)
Total provision for impairment losses	(6,535,918)	(3,928,630)
Net loans and advances to customers	228,880,732	191,531,735

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (b) Analysed by economic sector

	31 December 2016		Loans and advances secured by collaterals
	Amount	Percentage	
Wholesale and retail trade	73,940,527	31%	35,163,659
Manufacturing	36,474,375	15%	8,314,325
Renting and business activities	34,912,668	15%	19,866,758
Real estate	30,306,590	13%	27,881,390
Transportation, storage and postal services	9,880,743	4%	2,087,371
Construction	7,430,303	3%	4,719,306
Accommodation and catering	5,622,820	2%	5,014,470
Production and supply of electric power, gas and water	4,315,242	2%	1,645,252
Household and other services	3,045,395	1%	1,092,300
Culture, sports and entertainment	2,876,880	1%	1,005,750
Mining	2,183,200	1%	405,200
Agriculture, forestry, animal husbandry and fishery	2,098,825	1%	414,687
Public administration and social organisations	398,000	1%	398,000
Others	10,112,792	5%	2,683,681
Subtotal of corporate loans and advances	223,598,360	95%	110,692,149
Personal loans and advances	8,160,414	3%	6,784,441
Discounted bills	3,657,876	2%	3,657,876
Gross loans and advances to customers	235,416,650	100%	121,134,466

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (b) Analysed by economic sector (Continued)

	31 December 2015		Loans and advances secured by collaterals
	Amount	Percentage	
Wholesale and retail trade	49,379,811	25%	23,751,257
Manufacturing	32,235,242	16%	9,508,783
Renting and business activities	30,560,093	16%	20,160,951
Real estate	27,733,878	14%	26,605,278
Construction	9,639,581	5%	7,110,901
Transportation, storage and postal services	6,961,097	4%	2,709,255
Accommodation and catering	6,164,209	3%	5,477,550
Mining	3,969,500	2%	418,500
Public administration and social organisations	3,734,860	2%	3,430,000
Production and supply of electric power, gas and water	3,371,205	2%	1,256,205
Household and other services	2,598,400	1%	1,014,400
Culture, sports and entertainment	1,936,105	1%	686,446
Agriculture, forestry, animal husbandry and fishery	1,615,558	1%	441,558
Others	8,588,902	4%	3,062,919
Subtotal of corporate loans and advances	188,488,441	96%	105,634,003
Personal loans and advances	6,897,064	4%	5,263,385
Discounted bills	74,860	0%	74,860
Gross loans and advances to customers	195,460,365	100%	110,972,248

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (b) 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:

	31 December 2016				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Wholesale and retail trade	497,053	153,008	1,302,872	529,256	39,916
Manufacturing	2,827,606	1,647,216	606,137	1,523,655	34,031
Real estate	309,062	91,992	762,462	204,559	–
Renting and business activities	–	–	746,177	160,227	–

	31 December 2015				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Wholesale and retail trade	91,029	35,018	891,606	454,420	114,675
Manufacturing	415,424	147,415	582,283	171,149	16,300
Real estate	129,812	41,350	608,545	19,218	–
Renting and business activities	–	–	585,950	301,495	–

#### (c) Analysed by type of collateral

	31 December 2016	31 December 2015
Unsecured loans	20,750,551	17,866,216
Guaranteed loans	93,531,633	66,621,901
Loans secured by tangible assets other than monetary assets	101,776,176	95,958,742
Loans secured by intangible assets or monetary assets	19,358,290	15,013,506
Gross loans and advances to customers	235,416,650	195,460,365
Less: Provision for impairment losses		
– Individually assessed	(2,053,429)	(286,754)
– Collectively assessed	(4,482,489)	(3,641,876)
Total provision for impairment losses	(6,535,918)	(3,928,630)
Net loans and advances to customers	228,880,732	191,531,735



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (d) Overdue loans analysed by overdue period

	31 December 2016				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	5,981	14,035	1,453	224	21,693
Guaranteed loans	1,055,942	2,437,907	100,060	18,789	3,612,698
Loans secured by tangible assets other than monetary assets	1,050,053	881,638	322,205	57,738	2,311,634
Loans secured by intangible assets or monetary assets	150,000	310	70,000	–	220,310
<b>Total</b>	<b>2,261,976</b>	<b>3,333,890</b>	<b>493,718</b>	<b>76,751</b>	<b>6,166,335</b>
As a percentage of gross loans and advances to customers	0.96%	1.42%	0.21%	0.03%	2.62%

	31 December 2015				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	5,101	13,188	1,196	453	19,938
Guaranteed loans	179,000	37,380	12,380	18,724	247,484
Loans secured by tangible assets other than monetary assets	276,999	349,316	13,043	57,738	697,096
Loans secured by intangible assets or monetary assets	15,000	1,400	70,000	–	86,400
<b>Total</b>	<b>476,100</b>	<b>401,284</b>	<b>96,619</b>	<b>76,915</b>	<b>1,050,918</b>
As a percentage of gross loans and advances to customers	0.24%	0.21%	0.05%	0.04%	0.54%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (e) Loans and advances and provision for impairment losses

	31 December 2016			Total	Gross impaired loans and advances as a percentage of gross loans and advances
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances for which provision are individually assessed		
Gross loans and advances to customers	231,310,329	108,079	3,998,242	235,416,650	1.74%
Less: Provision for impairment losses	(4,379,900)	(102,589)	(2,053,429)	(6,535,918)	
Net loans and advances to customers	<u>226,930,429</u>	<u>5,490</u>	<u>1,944,813</u>	<u>228,880,732</u>	

	31 December 2015			Total	Gross impaired loans and advances as a percentage of gross loans and advances
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances for which provision are individually assessed		
Gross loans and advances to customers	194,645,938	30,003	784,424	195,460,365	0.42%
Less: Provision for impairment losses	(3,612,734)	(29,142)	(286,754)	(3,928,630)	
Net loans and advances to customers	<u>191,033,204</u>	<u>861</u>	<u>497,670</u>	<u>191,531,735</u>	

Notes:

- (i) Loans and advances collectively assessed for impairment bear relatively insignificant risk of impairment. These loans and advances include those which are graded normal or special-mention.
- (ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the following methods:
  - Individually (including corporate loans and advances which are graded substandard, doubtful or loss); or
  - Collectively, representing portfolios of homogeneous loans with individual insignificant amount (including personal loans and advances which are graded substandard, doubtful or loss).
- (iii) The definitions of the loan classifications, stated in Notes (i) and (ii) above, are set out in Note 40(a).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (f) Movements of provision for impairment losses

	2016			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	which are individually assessed	
As at 1 January	3,612,734	29,142	286,754	3,928,630
Charge for the year	1,418,847	86,892	2,000,914	3,506,653
Release for the year	(651,681)	(13,186)	(97,412)	(762,279)
Unwinding of discount	–	–	(43,380)	(43,380)
Write-offs	–	(281)	(97,297)	(97,578)
Recoveries	–	22	3,850	3,872
As at 31 December	<u>4,379,900</u>	<u>102,589</u>	<u>2,053,429</u>	<u>6,535,918</u>

	2015			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	which are individually assessed	
As at 1 January	2,380,044	53,000	264,591	2,697,635
Charge for the year	1,960,475	27,526	351,375	2,339,376
Release for the year	(517,785)	(37,068)	(157,570)	(712,423)
Disposal for the year	(210,000)	–	–	(210,000)
Unwinding of discount	–	–	(26,074)	(26,074)
Write-offs	–	(14,316)	(151,000)	(165,316)
Recoveries	–	–	5,432	5,432
As at 31 December	<u>3,612,734</u>	<u>29,142</u>	<u>286,754</u>	<u>3,928,630</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (g) Analysed by geographical sector (Note (i))

	31 December 2016		Loans and advances secured by collaterals
	Loans balance	Percentage	
Northeast China	181,624,687	77%	102,813,182
North China	42,950,877	18%	9,942,138
Others	10,841,086	5%	8,379,146
Gross loans and advances to customers	<u>235,416,650</u>	<u>100%</u>	<u>121,134,466</u>

	31 December 2015		Loans and advances secured by collaterals
	Loans balance	Percentage	
Northeast China	155,149,830	79%	94,333,877
North China	33,332,869	17%	10,718,185
Others	6,977,666	4%	5,920,186
Gross loans and advances to customers	<u>195,460,365</u>	<u>100%</u>	<u>110,972,248</u>

Note:

- (i) The definitions of the geographical sectors are set out in note 39(b).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

#### (g) Analysed by geographical sector (Note (i)) (Continued)

As at the end of the reporting period, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of each geographic sector which constitutes 10% or more of gross loans and advances to customers is as follows:

	31 December 2016		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Northeast China	3,732,478	1,955,861	3,482,054
North China	353,211	92,885	772,404

	31 December 2015		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Northeast China	810,427	313,619	2,870,524
North China	–	–	610,421

### 21 FINANCIAL INVESTMENTS

	Note	31 December 2016	31 December 2015
Available-for-sale financial assets	21(a)	46,328,907	27,359,926
Held-to-maturity investments	21(b)	171,504,761	51,761,238
Loans and receivables	21(c)	245,532,030	234,508,219
Total		463,365,698	313,629,383

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 21 FINANCIAL INVESTMENTS (Continued)

#### (a) Available-for-sale financial assets

	Note	31 December 2016	31 December 2015
Debt securities at fair value listed outside Hong Kong			
– Government		25,235,064	5,144,025
– Policy banks		13,740,574	20,186,078
– Banks and other financial institutions		404,796	550,447
– Corporate		6,564,448	1,203,451
Subtotal		45,944,882	27,084,001
Equity investment			
– Unlisted	21(a)(i)	384,025	275,925
Total		46,328,907	27,359,926

The Bank reclassified debt securities amounting to RMB9.46 billion out of available-for-sale to held-to-maturity investments during the year ended 31 December 2016, and as at the reclassification date, the estimated amount of cash flows the Group expected to recover was RMB10.44 billion. As at 31 December 2016, the carrying amount of the above debt securities was RMB9.46 billion, and the fair value was RMB9.29 billion. The Group has recognised a fair value loss of RMB6.24 million in other comprehensive income during the year of 2016. Except for the above, the Group and the Bank did not reclassify any other financial investments in and out from available-for-sale category for the year ended 31 December 2015 and 2016.

Note:

- (i) There is no active market for certain available-for-sale unlisted equity investments and it is the Group's intention to dispose of them as opportunities arise.

#### (b) Held-to-maturity investments

	31 December 2016	31 December 2015
Listed outside Hong Kong		
– Government	75,012,016	14,188,964
– Policy banks	65,800,264	30,504,007
– Banks and other financial institutions	29,766,124	3,348,001
– Corporate	926,357	3,720,266
Total	171,504,761	51,761,238
Fair value of listed securities	170,708,662	53,157,521

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 21 FINANCIAL INVESTMENTS (Continued)

#### (c) Loans and receivables

	Note	31 December 2016	31 December 2015
Investment management products managed by securities companies		156,798,192	157,543,148
Investment management products under trust scheme		69,940,838	54,968,071
Wealth management products issued by financial institutions		20,072,000	22,630,000
Subtotal	21(c)(i)	246,811,030	235,141,219
Less: Provisions for loans and receivables		(1,279,000)	(633,000)
Total		245,532,030	234,508,219

#### (i) Analysed by credit risk-bearing party

	31 December 2016	31 December 2015
Loans and receivables		
– Banks and other financial institutions	156,796,192	166,147,474
– Corporate	89,014,838	68,993,745
– Government	1,000,000	–
Total	246,811,030	235,141,219

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22 INVESTMENTS IN SUBSIDIARIES

#### The Bank

	31 December 2016	31 December 2015
Shenyang Shenbei Fumin Village Bank Co., Ltd. ("Shenyang Shenbei")	35,321	35,321
Shenyang Xinmin Fumin Village Bank Co., Ltd. ("Shenyang Xinmin")	6,230	6,230
Shenyang Faku Fumin Village Bank Co., Ltd. ("Shenyang Faku")	6,262	6,262
Shenyang Liaozhong Fumin Village Bank Co., Ltd. ("Shenyang Liaozhong")	6,097	6,097
Ningbo Jiangbei Fumin Rural Bank Co., Ltd. ("Ningbo Jiangbei")	30,039	30,039
Shanghai Baoshan Fumin Rural Bank Co., Ltd. ("Shanghai Baoshan")	62,208	62,208
Shengjing Bank Consumer Finance Co., Ltd. ("Shengjing Consumer")	180,000	—
<b>Total</b>	<b>326,157</b>	<b>146,157</b>

As at 31 December 2016, background of the subsidiaries is as follows:

	Notes	Date of incorporation	Place of incorporation, registration and operations	Registered capital	Percentage owned by the Bank	Business sector
Shenyang Shenbei	22(a)	09/02/2009	Liaoning, China	150,000	20%	Banking
Shenyang Xinmin	22(b)	25/06/2010	Liaoning, China	30,000	20%	Banking
Shenyang Faku	22(c)	26/10/2010	Liaoning, China	30,000	20%	Banking
Shenyang Liaozhong	22(d)	26/11/2010	Liaoning, China	30,000	20%	Banking
Ningbo Jiangbei	22(e)	17/08/2011	Zhejiang, China	100,000	30%	Banking
Shanghai Baoshan	22(f)	09/09/2011	Shanghai, China	150,000	40%	Banking
Shengjing Consumer		25/02/2016	Liaoning, China	300,000	60%	Consumer finance



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 22 INVESTMENTS IN SUBSIDIARIES (Continued)

- (a) According to the revised Articles of Association of Shenyang Shenbei approved by the General Meeting held in June 2012, the financial and operational decisions of Shenyang Shenbei were made by the Bank. The Bank also agreed with seven shareholders who held in total 61.34% of ownership and voting power of Shenyang Shenbei that these seven shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Shenbei and classified its investment in Shenyang Shenbei as investments in subsidiaries.
- (b) According to the revised Articles of Association of Shenyang Xinmin approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Xinmin were made by the Bank. The Bank also agreed with eight shareholders who held in total 55% of ownership and voting power of Shenyang Xinmin that these eight shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Xinmin and classified its investment in Shenyang Xinmin as investments in subsidiaries.
- (c) According to the revised Articles of Association of Shenyang Faku approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Faku were made by the Bank. The Bank also agreed with seven shareholders who held in total 50% of ownership and voting power of Shenyang Faku that these seven shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Faku and classified its investment in Shenyang Faku as investments in subsidiaries.
- (d) According to the revised Articles of Association of Shenyang Liaozhong approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Liaozhong were made by the Bank. The Bank also agreed with eleven shareholders who held in total 70% of ownership and voting power of Shenyang Liaozhong that these eleven shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Liaozhong and classified its investment in Shenyang Liaozhong as investments in subsidiaries.
- (e) According to the revised Articles of Association of Ningbo Jiangbei approved by the General Meetings held in June 2012, the financial and operational decisions of Ningbo Jiangbei were made by the Bank. The Bank also agreed with six shareholders who held in total 50% of ownership and voting power of Ningbo Jiangbei that these six shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Ningbo Jiangbei and classified its investment in Ningbo Jiangbei as investments in subsidiaries.
- (f) According to the revised Articles of Association of Shanghai Baoshan approved by the General Meetings held in June 2012, the financial and operational decisions of Shanghai Baoshan were made by the Bank. The Bank also agreed with four shareholders who held in total 35.33% of ownership and voting power of Shanghai Baoshan that these four shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shanghai Baoshan and classified its investment in Shanghai Baoshan as investments in subsidiaries.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, unless otherwise stated)

## 23 PROPERTY AND EQUIPMENT

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
<b>Cost</b>						
As at 1 January 2015	2,780,771	456,268	1,274,501	419,462	89,519	5,020,521
Additions	39,234	10,233	767,997	129,372	10,757	957,593
CIP transfers	126,868	64,358	(191,226)	–	–	–
Disposals	–	–	–	(101)	(2,878)	(2,979)
As at 31 December 2015 and 1 January 2016	2,946,873	530,859	1,851,272	548,733	97,398	5,975,135
Additions	121,387	42,496	571,327	116,583	1,456	853,249
CIP transfers	495,529	58,988	(554,517)	–	–	–
Disposals	–	–	–	(2,114)	(600)	(2,714)
As at 31 December 2016	3,563,789	632,343	1,868,082	663,202	98,254	6,825,670
<b>Accumulated depreciation</b>						
As at 1 January 2015	(827,839)	(267,212)	–	(259,867)	(67,425)	(1,422,343)
Additions	(146,142)	(52,529)	–	(77,536)	(10,955)	(287,162)
Disposals	–	–	–	97	2,807	2,904
As at 31 December 2015 and 1 January 2016	(973,981)	(319,741)	–	(337,306)	(75,573)	(1,706,601)
Additions	(147,224)	(60,322)	–	(95,506)	(9,707)	(312,759)
Disposals	–	–	–	1,687	582	2,269
As at 31 December 2016	(1,121,205)	(380,063)	–	(431,125)	(84,698)	(2,017,091)
<b>Net book value</b>						
As at 31 December 2015	1,972,892	211,118	1,851,272	211,427	21,825	4,268,534
As at 31 December 2016	2,442,584	252,280	1,868,082	232,077	13,556	4,808,579

The carrying amount of premises without title deeds as at 31 December 2016 was RMB255.90 million (31 December 2015: RMB290.17 million). The Group is still in the progress of applying the title deeds for the above premises. Management of the Group expected that there would be no significant costs in obtaining the title deeds.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23 PROPERTY AND EQUIPMENT (Continued)

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:

	31 December 2016	31 December 2015
Held in mainland China		
– Long term leases (over 50 years)	289,346	51,071
– Medium term leases (10–50 years)	2,064,078	1,835,297
– Short term leases (less than 10 years)	89,160	86,524
Total	2,442,584	1,972,892

### 24 DEFERRED INCOME TAX ASSETS AND LIABILITIES

#### (a) Analysed by nature

	31 December 2016		31 December 2015	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	5,673,171	1,418,292	2,565,508	641,377
Change in fair value of available-for-sale financial assets	122,725	30,681	–	–
Supplementary retirement benefits	110,946	27,737	126,107	31,527
	5,906,842	1,476,710	2,691,615	672,904
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	–	–	(830,884)	(207,721)
Change in fair value of financial assets at fair value through profit or loss	–	–	(1,176)	(294)
Change in fair value of derivative financial instruments	(262,340)	(65,585)	–	–
	(262,340)	(65,585)	(832,060)	(208,015)
Net deferred income tax	5,644,502	1,411,125	1,859,555	464,889

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 24 DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

#### (b) Analysed by movement

	At 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2016
Deferred income tax assets:				
Allowance for impairment losses	641,377	776,915	–	1,418,292
Change in fair value of available-for-sale financial assets	–	–	30,681	30,681
Supplementary retirement benefits	31,527	(3,904)	114	27,737
Subtotal	672,904	773,011	30,795	1,476,710
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(207,721)	–	207,721	–
Change in fair value of financial assets at fair value through profit or loss	(294)	294	–	–
Change in fair value of derivative financial instruments	–	(65,585)	–	(65,585)
Subtotal	(208,015)	(65,291)	207,721	(65,585)
Net deferred income tax	464,889	707,720	238,516	1,411,125

	At 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2015
Deferred income tax assets:				
Allowance for impairment losses	298,614	342,763	–	641,377
Supplementary retirement benefits	31,766	(1,179)	940	31,527
Subtotal	330,380	341,584	940	672,904
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(189,293)	–	(18,428)	(207,721)
Change in fair value of financial assets at fair value through profit or loss	–	(294)	–	(294)
Subtotal	(189,293)	(294)	(18,428)	(208,015)
Net deferred income tax	141,087	341,290	(17,488)	464,889

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 25 OTHER ASSETS

	Note	31 December 2016	31 December 2015
Interest receivable	25(a)	6,457,270	6,855,568
Reposessed assets	25(b)	136,733	136,733
Prepayments		119,848	667,472
Intangible assets	25(c)	91,496	61,209
Land use rights		63,549	65,727
Settlement and clearing accounts		20,699	48,017
Long-term deferred expense		7,632	10,296
Others	25(d)	499,699	751,341
<b>Total</b>		<b>7,396,926</b>	<b>8,596,363</b>

#### (a) Interest receivable

	31 December 2016	31 December 2015
Interest receivable arising from:		
– Investments	5,256,338	3,999,790
– Loans and advances to customers	607,393	483,967
– Deposits with banks and other financial institutions	578,196	2,368,302
– Others	15,343	3,509
<b>Total</b>	<b>6,457,270</b>	<b>6,855,568</b>

#### (b) Reposessed assets

	31 December 2016	31 December 2015
Land use rights and buildings	136,733	136,733
<b>Subtotal</b>	<b>136,733</b>	<b>136,733</b>
Less: Impairment allowance	–	–
	<b>136,733</b>	<b>136,733</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 25 OTHER ASSETS (Continued)

#### (c) Intangible assets

	31 December 2016	31 December 2015
<b>Cost</b>		
As at 1 January	122,764	97,558
Additions	40,668	25,206
As at 31 December	163,432	122,764
<b>Accumulated amortisation</b>		
As at 1 January	(61,555)	(53,776)
Additions	(10,381)	(7,779)
As at 31 December	(71,936)	(61,555)
<b>Net value</b>		
As at 1 January	61,209	43,782
As at 31 December	91,496	61,209

Intangible assets of the Group mainly represent computer software.

#### (d) Others

	31 December 2016	31 December 2015
Receivable due from disposal of non-performing assets (Note (i))	726,124	726,124
Others	129,000	95,605
Subtotal	855,124	821,729
Less: Impairment allowance	(355,425)	(70,388)
	499,699	751,341

Note:

- (i) It represents a receivable from Shenyang City Infrastructure Construction Investment Development Co., Ltd. and the receivable is guaranteed by one of the Bank's shareholder, Shenyang Hengxin State-owned Asset Management Group Co., Ltd.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 26 BORROWINGS FROM CENTRAL BANK

	31 December 2016	31 December 2015
Borrowings (Note (1))	118,800,000	6,800,000

Note:

(1) Borrowings from central bank mainly include Medium-term Lending Facility and open market operations.

### 27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	31 December 2016	31 December 2015
Deposits in mainland China		
– Banks	26,539,036	51,352,434
– Other financial institutions	116,839,494	49,264,719
Total	143,378,530	100,617,153

### 28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	31 December 2016	31 December 2015
Placements in mainland China		
– Banks	38,940,901	11,240,597
– Other financial institutions	–	129,872
Total	38,940,901	11,370,469

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

#### (a) Analysed by type and location of counterparty

	31 December 2016	31 December 2015
In mainland China		
– Banks	33,171,221	47,085,568
– Other financial institutions	7,114,370	–
Total	<u>40,285,591</u>	<u>47,085,568</u>

#### (b) Analysed by type of security held

	31 December 2016	31 December 2015
Debt securities sold under repurchase agreements	39,973,070	47,045,830
Bills sold under repurchase agreements	312,521	39,738
Total	<u>40,285,591</u>	<u>47,085,568</u>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 30 DEPOSITS FROM CUSTOMERS

	31 December 2016	31 December 2015
Demand deposits		
– Corporate deposits	74,575,104	72,780,720
– Personal deposits	14,398,743	11,771,895
Subtotal	88,973,847	84,552,615
Time deposits		
– Corporate deposits	165,133,167	168,423,885
– Personal deposits	111,842,098	96,685,647
Subtotal	276,975,265	265,109,532
Pledged deposits		
– Acceptances	47,520,550	50,969,515
– Letters of credit	1,024,603	447,065
– Letters of guarantees	338,867	877,277
– Others	298,208	277,404
Subtotal	49,182,228	52,571,261
Inward and outward remittances	114,819	145,678
Total deposits from customers at amortised cost	415,246,159	402,379,086

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 31 DEBT SECURITIES ISSUED

	Note	31 December 2016	31 December 2015
Subordinated fixed rate debts maturing in November 2021	31(a)	–	900,000
Tier two capital fixed rate debts maturing in May 2024	31(b)	2,200,000	2,200,000
Tier two capital fixed rate debts maturing in December 2025	31(c)	10,000,000	10,000,000
Financial fixed rate bonds maturing in August 2019	31(d)	5,000,000	–
Financial fixed rate bonds maturing in August 2021	31(e)	2,000,000	–
Certificates of interbank deposit	31(f)	68,089,181	65,385,436
<b>Total</b>		<b>87,289,181</b>	<b>78,485,436</b>

Notes:

- (a) Subordinated fixed rate debts of RMB0.9 billion with a term of ten years were issued on 3 November 2011. The coupon rate is 6.5%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years. The Group redeemed the debts on 4 November 2016.
- (b) Tier two capital fixed rate debts of RMB2.2 billion with a term of ten years were issued on 28 May 2014. The coupon rate is 6.18%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (c) Tier two capital fixed rate debts of RMB10.0 billion with a term of ten years were issued on 4 December 2015. The coupon rate is 4.57%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (d) Financial fixed rate bonds of RMB5.0 billion with a term of three years were issued on 26 August 2016. The coupon rate is 3.00% per annum.
- (e) Financial fixed rate bonds of RMB2.0 billion with a term of five years were issued on 26 August 2016. The coupon rate is 3.10% per annum.
- (f) As at 31 December 2016, the interbank negotiable certificates of deposit were measured at amortised cost. The fair value of the interbank deposits issued mentioned above approximates to RMB67,110 million (31 December 2015: RMB65,167 million).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 32 OTHER LIABILITIES

	Note	31 December 2016	31 December 2015
Interest payable	32(a)	11,653,951	9,816,616
Payment and collection clearance accounts		749,009	1,228,072
Taxes payable	32(b)	490,903	402,733
Accrued staff cost	32(c)	427,419	436,809
Dividend payable		186,572	104,075
Deferred income		161,173	33,060
Dormant accounts		37,987	35,994
Others		423,642	340,311
Total		14,130,656	12,397,670

#### (a) Interest payable

	31 December 2016	31 December 2015
Interest payable arising from:		
– Deposits from customers	8,748,356	7,129,549
– Deposits from banks and other financial institutions	1,731,179	2,528,295
– Debt securities issued	204,866	120,712
– Placements from banks and other financial institutions	31,491	19,951
– Financial assets sold under repurchase agreements	8,191	9,632
– Borrowings from central bank	929,211	8,477
– Others	657	–
Total	11,653,951	9,816,616

#### (b) Taxes payable

	31 December 2016	31 December 2015
Value-added tax and surcharges payable	457,384	–
Business tax and surcharges payable	16,971	402,733
Others	16,548	–
Total	490,903	402,733

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 32 OTHER LIABILITIES (Continued)

#### (c) Accrued staff cost

	Note	31 December 2016	31 December 2015
Salary, bonuses and allowances payable		202,613	182,035
Pension and annuity payable	32(c)(i)	73,612	60,673
Supplementary retirement benefits payable	32(c)(ii)	110,946	126,107
Housing allowances payable		29,857	29,989
Other social insurance payable		1,965	31,294
Others		8,426	6,711
Total		427,419	436,809

#### (i) Pension and annuity

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 social security authorities. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government authorities.

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

#### (ii) Supplementary retirement benefits

##### *Early retirement plan*

The Group provides early retirement benefit payments 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 Group accounts for the respective obligations in accordance with the accounting policies in Note 2(n).

##### *Supplementary retirement plan*

The Group provides a supplementary retirement plan to its eligible employees, which is mainly heating compensation. The Group accounted for the respective obligations in accordance with the accounting policies in Note 2(n).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 32 OTHER LIABILITIES (Continued)

#### (c) Accrued staff cost (Continued)

##### (ii) Supplementary retirement benefits (Continued)

(1) The balances of supplementary retirement benefits of the Group are as follows:

	31 December 2016	31 December 2015
Present value of early retirement plan	67,398	85,252
Present value of supplementary retirement plan	43,548	40,855
Total	110,946	126,107

(2) The movements of supplementary retirement benefits of the Group are as follows:

	2016	2015
As at 1 January	126,107	127,066
Benefits paid during the year	(18,885)	(17,028)
Defined benefit cost recognised in profit or loss	3,268	12,312
Defined benefit cost recognised in other comprehensive income	456	3,757
As at 31 December	110,946	126,107

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 32 OTHER LIABILITIES (Continued)

#### (c) Accrued staff cost (Continued)

##### (ii) Supplementary retirement benefits (Continued)

(3) Principal actuarial assumptions of the Group are as follows:

Early retirement plan	31 December 2016	31 December 2015
Discount rate	2.75%	2.75%
Mortality	Note 32(c)(ii)(3)(i)	Note 32(c)(ii)(3)(i)
Retired age		
– Male	60	60
– Female	55	55
Annual increase rate of internal salary	4.00%	4.00%

Supplementary retirement plan	31 December 2016	31 December 2015
Discount rate	3.75%	3.75%
Mortality	Note 32(c)(ii)(3)(i)	Note 32(c)(ii)(3)(i)
Turnover rate	3.00%	3.00%
Retired age		
– Male	60	60
– Female	55	55

Note:

- (i) Mortality assumptions are based on China Life Insurance Annuity Table (2000–2003) in China Life Insurance Mortality Table compiled by People's Life Insurance Company of China (PLICC), which are published historical statistics in China.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 33 MOVEMENT IN COMPONENTS OF EQUITY

The reconciliation between the opening and closing balance 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 reporting period are set out below:

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at 1 January 2016		5,796,680	11,855,505	3,893,846	6,173,630	623,163	(5,126)	12,906,248	41,243,946
Profit for the year		-	-	-	-	-	-	6,855,348	6,855,348
Other comprehensive income		-	-	-	-	(715,207)	(342)	-	(715,549)
Total comprehensive income		-	-	-	-	(715,207)	(342)	6,855,348	6,139,799
Appropriation of profit:									
- Appropriation to surplus reserve	36	-	-	773,122	-	-	-	(773,122)	-
- Appropriation to general reserve	36	-	-	-	3,090,363	-	-	(3,090,363)	-
- Cash dividends	36	-	-	-	-	-	-	(1,623,070)	(1,623,070)
Subtotal		-	-	773,122	3,090,363	-	-	(5,486,555)	(1,623,070)
Balance at 31 December 2016		5,796,680	11,855,505	4,666,968	9,263,993	(92,044)	(5,468)	14,275,041	45,760,675

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at 1 January 2015		5,646,005	11,106,917	2,733,397	3,542,926	567,881	(2,309)	12,085,324	35,680,141
Profit for the year		-	-	-	-	-	-	6,206,164	6,206,164
Other comprehensive income		-	-	-	-	55,282	(2,817)	-	52,465
Total comprehensive income		-	-	-	-	55,282	(2,817)	6,206,164	6,258,629
Changes in share capital									
- Issue of H-shares	34	150,675	748,588	-	-	-	-	-	899,263
Appropriation of profit:									
- Appropriation to surplus reserve	36	-	-	1,160,449	-	-	-	(1,160,449)	-
- Appropriation to general reserve	36	-	-	-	2,630,704	-	-	(2,630,704)	-
- Cash dividends	36	-	-	-	-	-	-	(1,594,087)	(1,594,087)
Subtotal		-	-	1,160,449	2,630,704	-	-	(5,385,240)	(1,594,087)
Balance at 31 December 2015		5,796,680	11,855,505	3,893,846	6,173,630	623,163	(5,126)	12,906,248	41,243,946

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 34 SHARE CAPITAL

#### Issued share capital

	31 December 2016	31 December 2015
Number of shares, issued and fully paid at par value (in thousands)	5,796,680	5,796,680

In January 2015, the Bank partially exercised the over-allotment option and issued 150,675,000 H-shares with a par value of RMB1 at an offering price of HKD7.56 per share. The premium arising from the offering amounting to RMB749 million was recorded in capital reserve.

### 35 RESERVES

#### (a) Capital reserve

Capital reserve mainly included share premium arising from the issuance of new shares at prices in excess of par value.

#### (b) 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, the Bank is required to appropriate 10% of its net profit according to the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance ("MOF") 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 also appropriates discretionary surplus reserve fund in accordance with the resolution of the shareholders.

#### (c) General reserve

From 1 July 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)" issued by the MOF on 20 March 2012, the Group is required to set aside a general reserve through its profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets by 30 June 2017.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 35 RESERVES (Continued)

#### (d) Fair value reserve

	2016	2015
As at 1 January	623,163	567,881
Change in fair value recognised in other comprehensive income	(62,512)	635,748
Less: deferred income tax	15,628	(158,937)
Transfer to profit or loss upon disposal	(891,097)	(562,038)
Less: deferred income tax	222,774	140,509
Subtotal	(715,207)	55,282
As at 31 December	(92,044)	623,163

#### (e) Deficit on remeasurement of net defined benefit liability

Deficit on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

#### (f) Retained earnings

As at 31 December 2016, the retained earnings included the statutory surplus reserve of RMB3.78 million (31 December 2015: RMB2.87 million), appropriated by the subsidiaries and attributable to the Bank, of which RMB0.91 million (2015: RMB0.41 million) was appropriated by the subsidiaries for the year then ended. The statutory surplus reserve in retained earnings which is contributed by subsidiaries cannot be further distributed.

### 36 PROFIT DISTRIBUTION

- (i) In accordance with the resolution of the Bank's Board of directors meeting on 17 March 2017, the proposed profit distribution plan for the year ended 31 December 2016 is as follows:
- Appropriate RMB152.51 million to the statutory surplus reserve fund, the statutory surplus reserve fund balance reached 50% of its registered capital on 31 December 2016;
  - Appropriate RMB685.53 million to the discretionary surplus reserve fund;
  - Appropriate RMB1,763.35 million to the general reserve;
  - Declare cash dividends of RMB2.50 per ten shares before tax and in aggregation of RMB1,449.17 million to all shareholders.

The profit appropriation resolution mentioned above has yet to be approved by the Bank's shareholders.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 36 PROFIT DISTRIBUTION (Continued)

- (ii) In accordance with the resolution of the Bank's 2015 Annual General Meeting held on 13 June 2016, the shareholders approved the following profit distribution plan for the year ended 31 December 2015:
- Appropriated 10% of the profit after tax to the statutory surplus reserve fund;
  - Appropriated RMB620.62 million to the discretionary surplus reserve fund;
  - Appropriated RMB3,090.36 million to the general reserve;
  - Declared cash dividends of RMB2.80 per ten shares before tax and in aggregation of RMB1,623.07 million to all shareholders.

### 37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents comprise:

	31 December 2016	31 December 2015
Cash on hand	642,182	619,243
Deposits with central bank other than restricted deposits	20,835,652	18,152,126
Deposits with banks and other financial institutions with original maturity of three months or less	35,608,390	19,560,882
Placements with banks and other financial institutions with original maturity of three months or less	19,430,000	900,000
Financial assets held under resale agreements with original maturity of three months or less	16,039,394	27,355,025
Total	92,555,618	66,587,276

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

#### (a) Relationship of related parties

##### (i) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above ownership, or assigning a director in the Bank.

Share percentage in the Bank:

	31 December 2016	31 December 2015
Evergrande Group (Nanchang) Co., Ltd.	17.28%	–
Great Captain Limited	9.96%	–
Shenyang Hengxin State-owned Asset Management Group Co., Ltd.	8.28%	8.28%
Liaoning Huibao International Investment Group Co., Ltd.	6.90%	6.90%
Xinhu Zhongbao Co., Ltd.	5.18%	5.18%
Founder Securities Co., Ltd.	5.18%	5.18%
Beijing Zhaotai Group Co., Ltd.	–	5.18%
Shenyang Zhongyou Tipo (Group) Machinery & Equipment manufacturing Co., Ltd.	3.28%	3.97%

##### (ii) Subsidiaries of the Bank

The detailed information of the Bank's subsidiaries is set out in Note 22.

##### (iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 38(a)(i) or their controlling shareholders. Other related parties also include post-employment benefit plans of the Group (Note 32(c)).

#### (b) 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

#### (b) Related party transactions and balances (Continued)

##### (i) Transactions between the Bank and major shareholders

	31 December 2016	31 December 2015
Balances at the end of the year:		
Deposits from customers	68,147	31,588
Guarantees received	1,899,900	1,783,720
	2016	2015
Transactions during the year:		
Interest income	–	78,500
Interest expense	740	3,952
Fee and commission income	–	100

##### (ii) Transactions between the Bank and subsidiaries

	31 December 2016	31 December 2015
Balances at the end of the year:		
Deposits from banks and other financial institutions	284,426	96,025
	2016	2015
Transactions during the year:		
Interest income	35	–
Interest expense	7,162	2,518

##### (iii) Transactions between the Bank and other related parties

	31 December 2016	31 December 2015
Balances at the end of the year:		
Loans and advances to customers	799,251	1,540,275
Deposits from customers	350,162	673,485
Bank acceptances	20,000	320,000
Guarantees received	3,768,950	2,578,950

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

#### (b) Related party transactions and balances (Continued)

##### (iii) Transactions between the Bank and other related parties (Continued)

	2016	2015
Transactions during the year:		
Interest income	75,727	381,303
Interest expense	11,033	19,942
Fee and commission income	141	519

#### (c) Key management personnel

##### (i) Key management personnel remuneration

	2016	2015
Salaries and other emoluments	16,432	16,198
Discretionary bonuses	25,474	22,846
Contributions to pension schemes	1,733	1,601
<b>Total</b>	<b>43,639</b>	<b>40,645</b>

##### (ii) Loans and advances to directors, supervisors and officers

At 31 December 2016 and 2015, there is no loans and advances to directors, supervisors and officers of the Group pursuant to section 383(1) of Hong Kong Companies Ordinance.

##### (iii) Transactions between the Bank and key management personnel

	31 December 2016	31 December 2015
Balances at the end of the year:		
Deposits from customers	17,141	21,654
Transactions during the year:		
Interest expense	716	673

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 SEGMENT REPORTING

#### (a) Business Segment

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

##### **Corporate banking**

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing and deposit taking activities, 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 inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The treasury segment also covers management of the Group's overall liquidity position, including issuance of debts.

##### **Others**

Others 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)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 SEGMENT REPORTING (Continued)

#### (a) Business Segment (Continued)

	Corporate banking	Retail banking	2016 Treasury business	Others	Total
Operating income					
External net interest income/(expense)	5,276,840	(3,562,095)	11,502,921	–	13,217,666
Internal net interest income/(expense)	4,641,628	4,208,432	(8,850,060)	–	–
Net interest income	9,918,468	646,337	2,652,861	–	13,217,666
Net fee and commission income	1,493,971	408,906	11,030	–	1,913,907
Net trading gains	–	–	191,051	–	191,051
Net gains arising from investments	–	–	891,097	1,120	892,217
Net foreign exchange losses	–	–	(151,337)	–	(151,337)
Other operating income	31,991	1,648	–	16,733	50,372
Operating income	11,444,430	1,056,891	3,594,702	17,853	16,113,876
Operating expenses	(2,556,271)	(681,626)	(488,418)	(4,283)	(3,730,598)
Impairment losses on assets	(2,965,388)	(64,023)	(646,000)	–	(3,675,411)
Profit before tax	5,922,771	311,242	2,460,284	13,570	8,707,867
Other segment information					
– Depreciation and amortisation	245,159	70,862	11,999	–	328,020
– Capital expenditure	668,133	193,121	32,700	–	893,954

	Corporate banking	Retail banking	31 December 2016 Treasury business	Others	Total
Segment assets	271,909,537	15,508,795	616,269,165	384,025	904,071,522
Deferred tax assets					1,411,125
Total assets					905,482,647
Segment liabilities/Total liabilities	294,518,492	132,016,734	432,257,727	315,068	859,108,021
Credit commitments	152,442,135	2,146,488	–	–	154,588,623





## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 SEGMENT REPORTING (Continued)

#### (b) Geographical information

The Group operates principally in mainland China with eighteen branches located in five provinces and municipalities directly under the central government, and seven subsidiaries located in Shenyang of Liaoning Province, Baoshan of Shanghai and Ningbo of Zhejiang Province respectively.

In presenting of geographical information, non-current assets are allocated based on the geographical location of the underlying assets. Operating income is allocated based on the location of the Group's entities which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- “Northeast China” refers to headquarter and the following areas serviced by subsidiaries and branches of the Bank: Shenyang, Changchun, Dalian, Anshan, Benxi, Jinzhou, Yingkou, Huludao, Panjin, Chaoyang, Fushun, Fuxin, Dandong, Liaoyang, Tieling, Shenyang Xinmin, Shenyang Shenbei, Shenyang Faku, Shenyang Liaozhong and Shengjing Consumer;
- “North China” refers to the following areas serviced by branches of the Bank: Beijing and Tianjin;
- “Others” refers to the following areas serviced by subsidiaries and branches of the Bank: Shanghai, Shanghai Baoshan, and Ningbo Jiangbei.

	Operating income	
	2016	2015
Northeast China	14,263,677	11,767,102
North China	1,247,406	2,100,290
Others	602,793	316,764
<b>Total</b>	<b>16,113,876</b>	<b>14,184,156</b>

	Non-current assets (Note i)	
	31 December 2016	31 December 2015
Northeast China	4,594,028	4,003,911
North China	353,087	369,930
Others	24,141	31,925
<b>Total</b>	<b>4,971,256</b>	<b>4,405,766</b>

Note:

- (i) Non-current assets include property and equipment, intangible assets, long-term deferred expense and land use rights.

# NOTES TO THE FINANCIAL STATEMENTS

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

## 40 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 Bank in terms of risk management and oversees the Group's risk management functions through the Risk Control 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 Control 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.

### (a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and debt investments portfolios and guarantees granted.

#### ***Credit business***

The Board is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The Board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies, ensures that all kinds of credit risk in various businesses are properly identified, assessed, calculated and monitored. The Risk Control Centre is responsible for credit risk management. Front-office departments such as the Corporate Banking Department, the Retail Banking Department, the Investment Banking Department and the Financial Market Operation Centre carry out credit businesses according to the Group's risk management policies and procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (a) Credit risk (Continued)

##### *Credit business (Continued)*

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

##### *Treasury Business*

The Group's treasury business are exposed to the credit risk associated with the investment business and inter-bank business. The Group manages the credit risk exposures by setting credit limits to the internal credit ratings of its treasury business. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

##### (i) *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 the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of the reporting period is disclosed in Note 42(a).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (a) Credit risk (Continued)

##### Credit business (Continued)

##### (ii) Loans and advances to customers

	31 December 2016	31 December 2015
Gross balance of loans and advances to customers		
– Neither overdue nor impaired	229,137,993	194,312,200
– Overdue but not impaired	2,172,336	333,738
– Impaired	4,106,321	814,427
	<u>235,416,650</u>	<u>195,460,365</u>
Less: allowance for impairment loss		
– Neither overdue nor impaired	(4,249,634)	(3,587,614)
– Overdue but not impaired	(130,266)	(25,120)
– Impaired	(2,156,018)	(315,896)
	<u>(6,535,918)</u>	<u>(3,928,630)</u>
Net balance		
– Neither overdue nor impaired	224,888,359	190,724,586
– Overdue but not impaired	2,042,070	308,618
– Impaired	1,950,303	498,531
	<u>228,880,732</u>	<u>191,531,735</u>

##### (1) Neither overdue nor impaired

Credit risk of loans and advances to customers neither overdue nor impaired was analysed as follows:

	31 December 2016	31 December 2015
Corporate loans and advances	221,127,939	187,480,877
Personal loans and advances	8,010,054	6,831,323
	<u>229,137,993</u>	<u>194,312,200</u>
Total gross balance	<u>229,137,993</u>	<u>194,312,200</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (a) Credit risk (Continued)

##### Credit business (Continued)

##### (ii) Loans and advances to customers (Continued)

##### (2) 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.

	31 December 2016				Total
	Less than 1 month (inclusive)	1 month to 3 months (inclusive)	3 months to 1 year (inclusive)	More than 1 year	
Corporate loans and advances	1,096,165	1,033,890	–	–	2,130,055
Personal loans and advances	18,266	9,156	14,859	–	42,281
<b>Total gross balance</b>	<b>1,114,431</b>	<b>1,043,046</b>	<b>14,859</b>	<b>–</b>	<b>2,172,336</b>

	31 December 2015				Total
	Less than 1 month (inclusive)	1 month to 3 months (inclusive)	3 months to 1 year (inclusive)	More than 1 year	
Corporate loans and advances	55,000	243,000	–	–	298,000
Personal loans and advances	13,157	8,943	13,638	–	35,738
<b>Total gross balance</b>	<b>68,157</b>	<b>251,943</b>	<b>13,638</b>	<b>–</b>	<b>333,738</b>

The fair value of related collateral held by the Group as security is as follows:

	31 December 2016	31 December 2015
Fair value of collateral held against loans and advances overdue but not impaired	3,805,085	581,643

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)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (a) Credit risk (Continued)

##### Credit business (Continued)

##### (ii) Loans and advances to customers (Continued)

##### (3) Impaired loans

	31 December 2016	31 December 2015
Corporate loans and advances	3,998,242	784,424
Personal loans and advances	108,079	30,003
<b>Total</b>	<b>4,106,321</b>	<b>814,427</b>
% of total loans and advances	1.74%	0.42%
Allowance for impairment losses		
– Corporate loans and advances	2,053,429	286,754
– Personal loans and advances	102,589	29,142
<b>Total</b>	<b>2,156,018</b>	<b>315,896</b>
Fair value of collateral held against impaired loans	1,946,405	371,461

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.

##### (4) 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 borrower's financial condition or of the borrower's 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. The Group has no rescheduled loans as at 31 December 2016 (31 December 2015: nil) which were all overdue more than 90 days.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (a) Credit risk (Continued)

##### Credit business (Continued)

##### (iii) 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:

	31 December 2016	31 December 2015
Carrying amount		
<i>Neither overdue nor impaired</i>		
– grade A to AAA	91,191,322	92,816,038
– grade B to BBB	36,142,125	24,160,854
– grade C to CCC	7,557	–
– unrated	626,290	910,962
Total	127,967,294	117,887,854

##### (iv) 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:

	31 December 2016	31 December 2015
Carrying amount		
<i>Neither overdue nor impaired</i>		
– Government	100,247,080	19,332,989
– Policy banks	79,540,838	52,152,101
– Banks and other financial institutions	186,967,113	170,045,921
– Corporate	96,226,642	73,284,463
Total	462,981,673	314,815,474

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, 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 Control Committee to supervise the market risk management conducted by the senior management. The Financial Market Operation Centre and the International Business Department of the Bank are responsible for identifying, measuring, monitoring and reporting the market risk of the various business lines. The Planning and Accounting Management Department provides various data on market risks and other technical support to the Financial Market Operation Centre and the International Business Department. The Risk Control Centre is responsible for overall market risk management.

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.

#### (i) 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.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (i) Interest rate risk (Continued)

##### (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 timing causes the Group’s income or its inherent economic value to vary with the movement in interest rates.

The Financial Market Operation Centre is 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.

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:

	31 December 2016					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
<b>Assets</b>						
Cash and deposits with central bank	71,375,747	642,182	70,733,565	–	–	–
Deposits with banks and other financial institutions	90,789,790	–	51,096,390	39,693,400	–	–
Placements with banks and other financial institutions	21,138,110	–	19,430,000	1,708,110	–	–
Financial assets held under resale agreements	16,039,394	–	16,039,394	–	–	–
Loans and advances to customers (Note (i))	228,880,732	–	193,012,576	23,217,934	9,971,581	2,678,641
Financial investments (Note (ii))	463,365,698	384,025	88,592,720	204,850,477	133,703,044	35,835,432
Others	13,893,176	13,893,176	–	–	–	–
<b>Total assets</b>	<b>905,482,647</b>	<b>14,919,383</b>	<b>438,904,645</b>	<b>269,469,921</b>	<b>143,674,625</b>	<b>38,514,073</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (i) Interest rate risk (Continued)

##### (1) Repricing risk (Continued)

	31 December 2016					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
<b>Liabilities</b>						
Borrowings from central bank	(118,800,000)	–	(59,000,000)	(59,800,000)	–	–
Deposits from banks and other financial institutions	(143,378,530)	–	(67,978,758)	(69,886,772)	(5,513,000)	–
Placements from banks and other financial institutions	(38,940,901)	–	(36,529,256)	(2,411,645)	–	–
Financial assets sold under repurchase agreements	(40,285,591)	–	(40,028,567)	(257,024)	–	–
Deposits from customers	(415,246,159)	–	(155,065,012)	(100,898,876)	(154,082,246)	(5,200,025)
Debt securities issued	(87,289,181)	–	(38,569,472)	(29,519,709)	(7,000,000)	(12,200,000)
Others	(15,167,659)	(15,167,659)	–	–	–	–
<b>Total liabilities</b>	<b>(859,108,021)</b>	<b>(15,167,659)</b>	<b>(397,171,065)</b>	<b>(262,774,026)</b>	<b>(166,595,246)</b>	<b>(17,400,025)</b>
<b>Asset-liability gap</b>	<b>46,374,626</b>	<b>(248,276)</b>	<b>41,733,580</b>	<b>6,695,895</b>	<b>(22,920,621)</b>	<b>21,114,048</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (i) Interest rate risk (Continued)

##### (1) Repricing risk (Continued)

	31 December 2015					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
<b>Assets</b>						
Cash and deposits with central bank	63,787,726	619,243	63,168,483	–	–	–
Deposits with banks and other financial institutions	84,618,382	–	42,855,882	39,887,500	1,875,000	–
Placements with banks and other financial institutions	1,017,289	–	1,017,289	–	–	–
Financial assets at fair value through profit or loss	1,462,016	–	948,426	–	513,590	–
Financial assets held under resale agreements	32,252,183	–	32,252,183	–	–	–
Loans and advances to customers (Note (i))	191,531,735	–	164,736,543	18,198,096	5,765,804	2,831,292
Financial investments (Note (ii))	313,629,383	275,925	63,287,093	133,730,094	90,507,725	25,828,546
Others	13,329,786	13,329,786	–	–	–	–
<b>Total assets</b>	<b>701,628,500</b>	<b>14,224,954</b>	<b>368,265,899</b>	<b>191,815,690</b>	<b>98,662,119</b>	<b>28,659,838</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (i) Interest rate risk (Continued)

##### (1) Repricing risk (Continued)

	31 December 2015					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
<b>Liabilities</b>						
Borrowings from central bank	(6,800,000)	-	-	(6,800,000)	-	-
Deposits from banks and other financial institutions	(100,617,153)	-	(37,388,497)	(53,715,656)	(9,513,000)	-
Placements from banks and other financial institutions	(11,370,469)	-	(10,415,910)	(954,559)	-	-
Financial assets sold under repurchase agreements	(47,085,568)	-	(47,045,830)	(39,738)	-	-
Deposits from customers	(402,379,086)	-	(126,966,112)	(71,249,168)	(196,156,825)	(8,006,981)
Debt securities issued	(78,485,436)	-	(32,816,315)	(32,569,121)	-	(13,100,000)
Others	(13,175,835)	(13,175,835)	-	-	-	-
<b>Total liabilities</b>	<b>(659,913,547)</b>	<b>(13,175,835)</b>	<b>(254,632,664)</b>	<b>(165,328,242)</b>	<b>(205,669,825)</b>	<b>(21,106,981)</b>
<b>Asset-liability gap</b>	<b>41,714,953</b>	<b>1,049,119</b>	<b>113,633,235</b>	<b>26,487,448</b>	<b>(107,007,706)</b>	<b>7,552,857</b>

Notes:

- (i) For the Group's loans and advances to customers, the category "Less than three months" as at 31 December 2016 included overdue amounts (net of provision for impairment losses) of RMB2,134 million (31 December 2015: RMB745 million).
- (ii) Financial investments included available-for-sale financial assets, held-to-maturity investments and loans and receivables.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (i) Interest rate risk (Continued)

##### (2) Interest rate sensitivity analysis

	31 December 2016	31 December 2015
Change in profit after taxation	Increase/(decrease)	Increase/(decrease)
Up 100 bps parallel shift in yield curves	178,702	796,844
Down 100 bps parallel shift in yield curves	(178,702)	(796,844)

	31 December 2016	31 December 2015
Change in equity	Increase/(decrease)	Increase/(decrease)
Up 100 bps parallel shift in yield curves	(127,828)	161,122
Down 100 bps parallel shift in yield curves	137,426	(117,919)

The sensitivity analysis above is based on simplified scenarios. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements apply to all financial instruments of the Group;
- An interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;
- All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the mid 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;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's profit or loss 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)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (ii) 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:

	31 December 2016			
	RMB	USD	Others	Total
	(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
<b>Assets</b>				
Cash and deposits with central bank	71,295,617	59,993	20,137	71,375,747
Deposits with banks and other financial institutions	77,204,773	13,503,704	81,313	90,789,790
Placements with banks and other financial institutions	20,930,000	208,110	–	21,138,110
Financial assets held under resale agreements	16,039,394	–	–	16,039,394
Loans and advances to customers	225,292,115	2,681,455	907,162	228,880,732
Financial investments (Note (i))	461,422,846	1,942,852	–	463,365,698
Others	13,863,557	19,922	9,697	13,893,176
<b>Total assets</b>	<b>886,048,302</b>	<b>18,416,036</b>	<b>1,018,309</b>	<b>905,482,647</b>
<b>Liabilities</b>				
Borrowings from central bank	(118,800,000)	–	–	(118,800,000)
Deposits from banks and other financial institutions	(139,715,062)	(2,988,914)	(674,554)	(143,378,530)
Placements from banks and other financial institutions	(14,204,500)	(24,494,547)	(241,854)	(38,940,901)
Financial assets sold under repurchase agreements	(40,285,591)	–	–	(40,285,591)
Deposits from customers	(414,146,557)	(906,884)	(192,718)	(415,246,159)
Debt securities issued	(87,289,181)	–	–	(87,289,181)
Others	(15,037,737)	(111,233)	(18,689)	(15,167,659)
<b>Total liabilities</b>	<b>(829,478,628)</b>	<b>(28,501,578)</b>	<b>(1,127,815)</b>	<b>(859,108,021)</b>
<b>Net position</b>	<b>56,569,674</b>	<b>(10,085,542)</b>	<b>(109,506)</b>	<b>46,374,626</b>
Off-balance sheet credit commitments	150,579,755	2,796,033	1,212,835	154,588,623

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (ii) Currency risk (Continued)

	31 December 2015			
	RMB	USD	Others	Total
	(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
<b>Assets</b>				
Cash and deposits with central bank	63,715,659	53,153	18,914	63,787,726
Deposits with banks and other financial institutions	83,846,713	667,684	103,985	84,618,382
Placements with banks and other financial institutions	900,000	–	117,289	1,017,289
Financial assets at fair value through profit or loss	1,462,016	–	–	1,462,016
Financial assets held under resale agreements	32,252,183	–	–	32,252,183
Loans and advances to customers	186,746,339	4,136,938	648,458	191,531,735
Financial investments (Note (i))	311,811,164	1,818,219	–	313,629,383
Others	13,301,774	13,929	14,083	13,329,786
<b>Total assets</b>	<b>694,035,848</b>	<b>6,689,923</b>	<b>902,729</b>	<b>701,628,500</b>
<b>Liabilities</b>				
Borrowings from central bank	(6,800,000)	–	–	(6,800,000)
Deposits from banks and other financial institutions	(100,048,828)	(709)	(567,616)	(100,617,153)
Placements from banks and other financial institutions	(5,990,000)	(5,363,714)	(16,755)	(11,370,469)
Financial assets sold under repurchase agreements	(47,085,568)	–	–	(47,085,568)
Deposits from customers	(401,621,147)	(471,939)	(286,000)	(402,379,086)
Debt securities issued	(78,485,436)	–	–	(78,485,436)
Others	(13,048,762)	(117,217)	(9,856)	(13,175,835)
<b>Total liabilities</b>	<b>(653,079,741)</b>	<b>(5,953,579)</b>	<b>(880,227)</b>	<b>(659,913,547)</b>
<b>Net position</b>	<b>40,956,107</b>	<b>736,344</b>	<b>22,502</b>	<b>41,714,953</b>
Off-balance sheet credit commitments	144,636,605	1,858,787	425,156	146,920,548

Note:

- (i) Financial investments include available-for-sale financial assets, held-to-maturity investments and loans and receivables.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (b) Market risk (Continued)

##### (ii) Currency risk (Continued)

	31 December 2016	31 December 2015
Change in profit after taxation and equity	Increase/(decrease)	Increase/(decrease)
Up 100 bps parallel shift in yield curves	(11,022)	876
Down 100 bps parallel shift in yield curves	11,022	(876)

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;
- The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously, and thus other foreign currencies are converted into US dollars through sensitivity analysis;
- Other variables (including interest rates) remain unchanged; 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 profit or loss 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)

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 40 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong.

The Group has implemented the centralised management of the bank-wide liquidity risk by the head office, and established the liquidity risk management framework which mainly comprises the Assets and Liabilities Management Committee, the Risk Control Centre and the Planning and Accounting Management Department at the head office. The responsibilities of them are as following:

- the Assets and Liabilities Management Committee is the decision-making body for liquidity risk management and is responsible for formulating the guidelines and policies for liquidity risk management;
- the Risk Control Centre is the liquidity risk management department and is responsible for formulating, implementing and evaluating relevant systems, setting the bank-wide risk warning limits and guiding various business departments to manage liquidity risk on a daily basis; and
- the Planning and Accounting Management Department is the implementation department for liquidity risk management and is responsible for implementing relevant liquidity risk management policies, monitoring various liquidity risk indicators, regularly carrying out risk analysis and reporting to the Risk Control Centre and the Assets and Liabilities 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, inter-bank loan to saving ratio, loan quality ratio and liquidity gap ratio. Meanwhile, the Group forecasts the liquidity of each branch on a periodic basis. The Group conducts liquidity analysis on a monthly basis, performs stress testing on liquidity risk on a quarterly basis.

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)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### (i) 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:

	31 December 2016							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
<b>Assets</b>								
Cash and deposits with central bank	49,897,913	21,477,834	-	-	-	-	-	71,375,747
Deposits with banks and other financial institutions	-	13,860,390	12,323,000	24,913,000	39,693,400	-	-	90,789,790
Placements with banks and other financial institutions	-	-	18,430,000	1,000,000	1,708,110	-	-	21,138,110
Financial assets held under resale agreements	-	-	16,039,394	-	-	-	-	16,039,394
Loans and advances to customers	2,929,533	1,067,845	9,528,558	15,038,515	103,244,460	85,744,428	11,327,393	228,880,732
Financial investments (Note (i))	384,025	-	34,497,338	48,647,691	202,460,809	140,434,816	36,941,019	463,365,698
Others	6,643,244	101,939	1,547,966	1,502,765	4,081,340	15,922	-	13,893,176
<b>Total assets</b>	<b>59,854,715</b>	<b>36,508,008</b>	<b>92,366,256</b>	<b>91,101,971</b>	<b>351,188,119</b>	<b>226,195,166</b>	<b>48,268,412</b>	<b>905,482,647</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### (i) Maturity analysis (Continued)

	31 December 2016							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
<b>Liabilities</b>								
Borrowings from central bank	-	-	(53,000,000)	(6,000,000)	(59,800,000)	-	-	(118,800,000)
Deposits from banks and other financial institutions	-	(10,913,786)	(15,467,820)	(41,597,152)	(69,886,772)	(5,513,000)	-	(143,378,530)
Placements from banks and other financial institutions	-	-	(30,851,170)	(5,678,086)	(2,411,645)	-	-	(38,940,901)
Financial assets sold under repurchase agreements	-	-	(39,973,070)	(55,497)	(257,024)	-	-	(40,285,591)
Deposits from customers	-	(100,955,502)	(31,667,707)	(22,441,803)	(100,898,876)	(154,082,246)	(5,200,025)	(415,246,159)
Debt securities issued	-	-	(15,222,964)	(20,346,508)	(29,519,709)	(10,000,000)	(12,200,000)	(87,289,181)
Others	-	(3,828,923)	(2,061,977)	(1,621,260)	(4,119,550)	(3,315,348)	(220,601)	(15,167,659)
<b>Total liabilities</b>	-	<u>(115,698,211)</u>	<u>(188,244,708)</u>	<u>(97,740,306)</u>	<u>(266,893,576)</u>	<u>(172,910,594)</u>	<u>(17,620,626)</u>	<u>(859,108,021)</u>
Long/(short) position	<u>59,854,715</u>	<u>(79,190,203)</u>	<u>(95,878,452)</u>	<u>(6,638,335)</u>	<u>84,294,543</u>	<u>53,284,572</u>	<u>30,647,786</u>	<u>46,374,626</u>
Notional amount of derivatives	-	-	3,665,110	7,132,970	8,598,617	-	-	19,396,697

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### (i) Maturity analysis (Continued)

	31 December 2015							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
<b>Assets</b>								
Cash and deposits with central bank	45,016,357	18,771,369	-	-	-	-	-	63,787,726
Deposit with banks and other financial institutions	-	1,594,882	21,545,000	19,716,000	39,887,500	1,875,000	-	84,618,382
Placement with banks and other financial institutions	-	-	900,000	117,289	-	-	-	1,017,289
Financial assets at fair value through profit or loss	-	-	-	502,082	-	959,934	-	1,462,016
Financial assets held under resale agreements	-	-	29,315,413	2,936,770	-	-	-	32,252,183
Loans and advances to customers	743,262	63,886	7,161,179	13,778,430	88,875,722	71,472,554	9,436,702	191,531,735
Financial investments (Note (i))	275,925	-	14,994,615	47,347,549	124,962,440	98,997,390	27,051,464	313,629,383
Others	5,679,032	98,968	1,333,940	1,673,148	3,827,129	717,569	-	13,329,786
<b>Total assets</b>	<b>51,714,576</b>	<b>20,529,105</b>	<b>75,250,147</b>	<b>86,071,268</b>	<b>257,552,791</b>	<b>174,022,447</b>	<b>36,488,166</b>	<b>701,628,500</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### (i) Maturity analysis (Continued)

	31 December 2015							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
<b>Liabilities</b>								
Borrowings from the central bank	-	-	-	-	(6,800,000)	-	-	(6,800,000)
Deposits from banks and other financial institutions	-	(2,860,697)	(18,649,530)	(15,878,270)	(53,715,656)	(9,513,000)	-	(100,617,153)
Placements from banks and other financial institutions	-	-	(7,178,329)	(3,237,581)	(954,559)	-	-	(11,370,469)
Financial assets sold under repurchase agreements	-	-	(47,045,830)	-	(39,738)	-	-	(47,085,568)
Deposits from customers	-	(90,244,062)	(13,430,241)	(23,291,809)	(71,249,168)	(196,156,825)	(8,006,981)	(402,379,086)
Debt securities issued	-	-	(9,505,085)	(23,311,230)	(32,569,121)	-	(13,100,000)	(78,485,436)
Others	-	(3,287,023)	(1,840,023)	(1,114,200)	(2,633,494)	(4,017,776)	(283,319)	(13,175,835)
<b>Total liabilities</b>	-	<u>(96,391,782)</u>	<u>(97,649,038)</u>	<u>(66,833,090)</u>	<u>(167,961,736)</u>	<u>(209,687,601)</u>	<u>(21,390,300)</u>	<u>(659,913,547)</u>
Long/(short) position	<u>51,714,576</u>	<u>(75,862,677)</u>	<u>(22,398,891)</u>	<u>19,238,178</u>	<u>89,591,055</u>	<u>(35,665,154)</u>	<u>15,097,866</u>	<u>41,714,953</u>

##### Notes:

- (i) Financial investments include available-for-sale financial assets, held-to-maturity investment and loans and receivables.
- (ii) 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 not impaired but overdue within one month is included in "repayable on demand".

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### (ii) 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:

	Contractual undiscounted cash flow	Within one month	31 December 2016			
			Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from central bank	(121,093,995)	(53,455,126)	(6,167,563)	(61,471,306)	–	–
Deposits from banks and other financial institutions	(146,918,821)	(26,508,193)	(42,504,532)	(72,178,148)	(5,727,948)	–
Placements from banks and other financial institutions	(39,019,435)	(30,864,875)	(5,712,294)	(2,442,266)	–	–
Financial assets sold under repurchase agreements	(40,296,402)	(39,981,261)	(55,573)	(259,568)	–	–
Deposits from customers	(437,463,676)	(130,513,688)	(23,859,975)	(102,307,827)	(174,216,870)	(6,565,316)
Debt securities issued	(93,910,680)	(15,250,000)	(20,450,000)	(30,854,960)	(12,919,840)	(14,435,880)
Other financial liabilities	(1,558,383)	(786,996)	(584,815)	(186,572)	–	–
<b>Total non-derivative financial liabilities</b>	<b>(880,261,392)</b>	<b>(297,360,139)</b>	<b>(99,334,752)</b>	<b>(269,700,647)</b>	<b>(192,864,658)</b>	<b>(21,001,196)</b>

	Contractual undiscounted cash flow	Within one month	31 December 2015			
			Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from central bank	(6,909,098)	–	–	(6,909,098)	–	–
Deposits from banks and other financial institutions	(103,999,190)	(21,675,996)	(16,564,918)	(55,946,686)	(9,811,590)	–
Placements from banks and other financial institutions	(11,406,022)	(7,194,076)	(3,246,752)	(965,194)	–	–
Financial assets sold under repurchase agreements	(47,106,012)	(47,065,867)	–	(40,145)	–	–
Deposits from customers	(422,389,064)	(104,128,415)	(23,954,553)	(73,959,791)	(211,855,597)	(8,490,708)
Debt securities issued	(81,174,640)	(9,520,000)	(23,470,000)	(33,704,460)	(777,840)	(13,702,340)
Other financial liabilities	(1,741,512)	(1,264,066)	(373,371)	(104,075)	–	–
<b>Total non-derivative financial liabilities</b>	<b>(674,725,538)</b>	<b>(190,848,420)</b>	<b>(67,609,594)</b>	<b>(171,629,449)</b>	<b>(222,445,027)</b>	<b>(22,193,048)</b>

This analysis of the non-derivative financial assets and liabilities by contractual undiscounted cash flow might vary from actual results.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### (iii) Analysis on contractual undiscounted cash flows of derivatives

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:

- Currency swaps.
- Foreign exchange forwards
- Precious metal derivatives

The following tables analyse the Group's contractual undiscounted cash flows of derivative financial instruments to be settled on a gross basis as at the end of the reporting period.

	Contractual undiscounted cash flow	31 December 2016				
		Within one month	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Currency swaps and foreign exchange forwards						
– cash outflow	(19,077,270)	(3,644,676)	(7,020,732)	(8,411,862)	–	–
– cash inflow	19,282,339	3,661,839	7,136,195	8,484,305	–	–
Precious metal derivatives						
– cash outflow	(145,640)	–	–	(145,640)	–	–
– cash inflow	136,975	–	–	136,975	–	–

#### (d) 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 established “Three Lines of Defense for Risk Management” on the basis of the main prevention and control organisations consisting of each business department, the Risk Control Centre, the Compliance Department and the Internal Audit Department and also set up operational risk reporting mechanism between the Risk Control Centre and business units, the head office and branches.

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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 40 RISK MANAGEMENT (Continued)

#### (d) Operational risk (Continued)

The Group's measures to manage the operational risk mainly include:

- establishing and improving the risk management system, strictly separating responsibilities of the front, middle and back office, and optimising business procedures and risk management procedures;
- making use of risk alert system and paying attention to risk position and early risk alert on each aspect of business; updating operational risk guidelines from time to time; carrying out centralised risk management on major business areas so as to reduce business operational risk;
- 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 centralised operational risk management tools, supervising and evaluating the sufficiency and effectiveness of operational risk management;
- 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.

#### (e) 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. 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 demand.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (Continued)

#### (e) Capital management (Continued)

The Group calculates the capital adequacy ratios as at 31 December 2016 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the CBRC in 2012 and relevant requirements promulgated by the CBRC as follows:

Note	31 December 2016	31 December 2015
Total core tier-one capital		
– Share capital	5,796,680	5,796,680
– Qualifying portion of capital reserve	11,855,505	11,855,505
– Surplus reserve	4,666,968	3,893,846
– General reserve	9,267,100	6,176,638
– Fair value reserve	(92,044)	623,163
– Retained earnings	14,305,688	12,927,822
– Qualifying portions of non-controlling interests	462,462	348,314
– Others	(5,468)	(5,126)
Core tier-one capital	46,256,891	41,616,842
Core tier-one capital deductions	(91,496)	(61,209)
Net core tier-one capital	46,165,395	41,555,633
Other tier-one capital	–	–
Net tier-one capital	46,165,395	41,555,633
Tier two capital		
– Qualifying portions of tier-two capital instruments issued	12,200,000	12,830,000
– Surplus provision for loan impairment	2,429,598	3,114,204
Net tier-two capital	14,629,598	15,944,204
Net capital base	60,794,993	57,499,837
Total risk weighted assets	40(e)(i) 507,222,708	441,206,838
Core tier-one capital adequacy ratio	9.10%	9.42%
Tier-one capital adequacy ratio	9.10%	9.42%
Capital adequacy ratio	11.99%	13.03%

Notes:

- (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 Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), 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 9.3%, 7.3% and 6.3%, respectively, at 31 December 2016.

# NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

## 41 FAIR VALUE

### (a) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1:	quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2:	techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3:	techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair values, which specified 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:

#### (i) **Debt securities investments**

The fair values of debt securities that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period.

#### (ii) **Receivables and other non-derivative financial assets**

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

#### (iii) **Debt securities issued and other non-derivative financial liabilities**

Fair values of debt securities issued are based on their quoted market prices or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

#### (iv) **Derivative financial instruments**

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards, swaps and options, etc. The most frequently applied valuation techniques include discounted cash flow model and Black-Scholes model. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc..

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 41 FAIR VALUE (Continued)

#### (b) 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:

	31 December 2016			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Derivative financial assets				
– currency derivatives	–	273,416	–	273,416
– precious metal derivatives	–	3,130	–	3,130
Available-for-sale financial assets				
– debt instruments	–	45,944,882	–	45,944,882
<b>Total</b>	<b>–</b>	<b>46,221,428</b>	<b>–</b>	<b>46,221,428</b>
<b>Liabilities</b>				
Derivative financial liabilities				
– currency derivatives	–	(14,206)	–	(14,206)
<b>Total</b>	<b>–</b>	<b>(14,206)</b>	<b>–</b>	<b>(14,206)</b>

During the year ended 31 December 2016, there were no significant transfers between instruments in Level 1 and Level 2.

	31 December 2015			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Financial assets at fair value through profit or loss				
– debt instruments	–	1,462,016	–	1,462,016
Available-for-sale financial assets				
– debt instruments	–	27,084,001	–	27,084,001
<b>Total</b>	<b>–</b>	<b>28,546,017</b>	<b>–</b>	<b>28,546,017</b>

During the year ended 31 December 2015, there were no significant transfers between instruments in Level 1 and Level 2.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 41 FAIR VALUE (Continued)

#### (c) Level 2 fair value measurement

A majority of the debt instruments classified as level 2 are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data. This level also includes a majority of OTC derivative contracts, the most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. Input parameters like ChinaBond interbank yield curves, LIBOR yield curves or counterparty credit risk are sourced from Bloomberg and Reuters.

#### (d) Fair value of financial assets and liabilities not carried at fair value

**(i) Cash and deposits with central bank, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements, borrowings from central bank and financial investments classified as loans and receivables**

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

**(ii) Loans and advances to customers**

The fair value of loans and advances to customers is estimated based on future cash flows expected to be received which is discounted at current market rates. Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate their fair values.

**(iii) Held-to-maturity investments**

The fair value for held-to-maturity investments is based on "bid" market prices or brokers'/dealers' price quotations. If relevant market information is not available, the fair value is based on quote price of security products with similar characteristics such as credit risk, maturities and yield.

**(iv) Available-for-sale equity instruments**

Available-for-sale equity investments are unlisted shares. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise.

**(v) Deposits from customers**

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

**(vi) Debt securities issued**

Fair values of debt securities issued are based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 41 FAIR VALUE (Continued)

#### (d) Fair value of financial assets and liabilities not carried at fair value (Continued)

##### (vi) Debt securities issued (Continued)

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of held-to-maturity investments and debt securities issued:

31 December 2016					
	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Held-to-maturity investments	171,504,761	170,708,662	–	170,708,662	–
<b>Total</b>	<b>171,504,761</b>	<b>170,708,662</b>	<b>–</b>	<b>170,708,662</b>	<b>–</b>
<b>Financial liabilities</b>					
Debt securities issued					
– subordinated bonds	19,200,000	19,012,624	–	19,012,624	–
– certificates of interbank deposit	68,089,181	67,110,236	–	67,110,236	–
<b>Total</b>	<b>87,289,181</b>	<b>86,122,860</b>	<b>–</b>	<b>86,122,860</b>	<b>–</b>

31 December 2015					
	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Held-to-maturity investments	51,761,238	53,157,521	–	53,157,521	–
<b>Total</b>	<b>51,761,238</b>	<b>53,157,521</b>	<b>–</b>	<b>53,157,521</b>	<b>–</b>
<b>Financial liabilities</b>					
Debt securities issued					
– subordinated bonds	13,100,000	13,132,407	–	13,132,407	–
– certificates of interbank deposit	65,385,436	65,166,826	–	65,166,826	–
<b>Total</b>	<b>78,485,436</b>	<b>78,299,233</b>	<b>–</b>	<b>78,299,233</b>	<b>–</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 COMMITMENTS AND CONTINGENT LIABILITIES

#### (a) Credit commitments

The Group's credit commitments take the form of bank acceptances, credit card limits, letters of credit and letters of 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 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.

	31 December 2016	31 December 2015
Bank acceptances	142,948,098	134,379,232
Letters of guarantees	3,468,830	7,218,785
Letters of credit	6,025,207	3,285,170
Unused credit card commitments	2,146,488	2,037,361
Total	<u>154,588,623</u>	<u>146,920,548</u>

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.

#### (b) Credit risk-weighted amount

	31 December 2016	31 December 2015
Credit risk-weighted amount of contingent liabilities and commitments	<u>71,987,378</u>	<u>99,426,103</u>

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)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

#### (c) Operating lease commitments

As at 31 December 2016, the future minimum lease payments under non-cancellable operating leases for properties of the Group are as follows:

	31 December 2016	31 December 2015
Within one year (inclusive)	125,598	118,497
After one year but within five years (inclusive)	400,401	384,800
After five years	127,878	142,026
Total	653,877	645,323

#### (d) Capital commitments

As at 31 December 2016, the authorised capital commitments of the Group are as follows:

	31 December 2016	31 December 2015
Contracted but not paid for	1,388,595	1,843,166
Approved but not contracted for	100,422	57,731
Total	1,489,017	1,900,897

#### (e) Outstanding litigations and disputes

As at 31 December 2016, there are no significant legal proceedings outstanding against the Bank and/or its subsidiaries.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

#### (f) Pledged assets

	31 December 2016	31 December 2015
Investment securities	162,344,382	56,742,768
Discounted bills	312,521	39,738
Total	162,656,903	56,782,506

Some of the Group's assets are pledged as collateral under repurchase agreements and deposits from customers.

The Group maintains statutory deposit reserves with the PBOC as required (Note 14). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. The fair value of such pledged assets was nil as at 31 December 2016 (31 December 2015: RMB6,938 million). As at 31 December 2016 and 2015, the pledged assets were not sold or repledged, which it has an obligation to repurchase on due.

### 43 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

#### (a) 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.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 43 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

#### (a) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 31 December 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:

	31 December 2016		
	Loans and receivables	Carrying amount	Maximum exposure
Investment management products managed by securities companies	156,798,192	156,798,192	156,798,192
Investment management products under trust scheme	69,940,838	69,940,838	69,940,838
Wealth management products issued by financial institutions	20,072,000	20,072,000	20,072,000
<b>Total</b>	<b>246,811,030</b>	<b>246,811,030</b>	<b>246,811,030</b>

	31 December 2015		
	Loans and receivables	Carrying amount	Maximum exposure
Investment management products managed by securities companies	157,543,148	157,543,148	157,543,148
Investment management products under trust scheme	54,968,071	54,968,071	54,968,071
Wealth management products issued by financial institutions	22,630,000	22,630,000	22,630,000
<b>Total</b>	<b>235,141,219</b>	<b>235,141,219</b>	<b>235,141,219</b>

The maximum exposures to loss in the above investment management products and wealth management products are the carrying amounts of the assets held by the Group at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 43 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

#### (b) Structured entities sponsored by the Group in which the Group does not consolidate but holds an interest

The types of unconsolidated structured entities sponsored by the Group include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services.

During the year ended 31 December 2016, the amount of fee and commission income received from the abovementioned structured entities by the Group is RMB388.98 million (2015: RMB65.09 million).

As at 31 December 2016, the amount of assets held by unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB58,589 million (31 December 2015: RMB24,651 million).

During the year ended 31 December 2016, the aggregated amount of non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2016, but matured before 31 December 2016, is RMB82,488 million (2015: RMB17,487 million).

In addition, unconsolidated structured entities sponsored by the Bank also include trust schemes. In 2015, the Bank transferred a portfolio of corporate loans with carrying amounts of RMB5,900 million to unconsolidated trust schemes managed by an independent trust company, which issued asset-backed securities to investors. The Bank acquired 5% of the issued asset-backed securities from the structured entities. As at 31 December 2016, the carrying amounts of these asset-backed securities held by the Bank are RMB12 million (31 December 2015: RMB281 million), which are also the amounts that best represent the maximum exposure to loss. Under the servicing arrangements with the trust company, the Bank would collect the cash flows of the corporate loans on behalf of the unconsolidated structured entities. In return, the Bank would receive a fee that is expected to compensate the Bank for servicing the related assets. The Bank transfers substantially all of the risks and rewards of ownership of the financial assets to the unconsolidated structured entities and retains a relatively small interest in the vehicle or the servicing arrangement in respect of the corporate loans, these transferred corporate loans are derecognised in their entirety.

### 44 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which are principal-guaranteed wealth management products. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties. The Group does not hold any shares of the principal-guaranteed wealth management products, however, the Group has the authority to exercise the right of making investment decisions as a main administrator, and the proportion of the aggregate economic interests of the Group in the structured entities is high. The Group concludes that these structured entities shall be consolidated.

As at 31 December 2016, the principal-guaranteed wealth management products managed and consolidated by the Group amounted to RMB1,485 million (31 December 2015: RMB4,069 million). These wealth management products mainly invested in deposits with banks and other financial institutions and debt securities. The financial impact of these principal-guaranteed wealth management product on the Group's financial performance is not significant.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 45 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 31 December 2016, the entrusted loans balance of the Group is RMB38,392 million (31 December 2015: RMB16,226 million).

### 46 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

#### (a) Impairment losses on loans and advances to customers and financial investments (available-for-sale financial assets, held-to-maturity investments and 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 judgments based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

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

#### (b) 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)

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 46 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

#### (c) 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 judgments. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

#### (d) Income taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account 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 judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

#### (e) 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 judgments are exercised over the asset's, related operating income and 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 related operating income and expenses based on reasonable and supportable assumption.

#### (f) 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 the reporting period. 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)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 46 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

#### (g) Consolidation of structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement.

When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. The Group is deemed to be a principal, and hence controls and consolidates the structured entity, when it acts as manager and cannot be removed without cause, has variable returns through significant unit holdings and/or a guarantee, and is able to influence the returns of the structured entities by exercising its power.

### 47 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendments to IAS 7, <i>Disclosure initiative</i>	1 January 2017
Amendments to IAS 12, <i>Income taxes – Recognition of deferred tax assets for unrealised losses</i>	1 January 2017
Amendments to IFRS 2, <i>Classification and measurement of share-based payment transactions</i>	1 January 2018
Amendments to IFRS 4, <i>Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts</i>	1 January 2018
Amendments to IAS 40, <i>Transfers of investment property</i>	1 January 2018
IFRIC 22, <i>Foreign currency transactions and advance consideration</i>	1 January 2018
IFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
IFRS 9, <i>Financial Instruments (2014)</i>	1 January 2018
IFRS 16, <i>Leases</i>	1 January 2019

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 47 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

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.

#### (a) IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

##### *Classification and measurement of financial assets and financial liabilities*

IFRS 9 Financial Instruments includes a 3rd business model and requires some debt instruments to be measured at fair value through other comprehensive income less impairment with recycling. For the classification and measurement, IFRS 9 Financial Instruments introduces a new requirement that the gain or loss on a financial liability designated at fair value through profit or loss that is attributable to changes in the entity's own credit risk is recognised in other comprehensive income; the remaining amount of change in fair value is recognised in profit or loss ("own credit risk requirements").

##### *Impairment*

The new impairment methodology in IFRS 9 Financial Instruments replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under IFRS 9 Financial Instruments it is not necessary for a credit event to have occurred before credit losses are recognised.

The Group has started the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have an impact on the Group's financial statements.

#### (b) 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 Leases 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 48 BANK-LEVEL STATEMENT OF FINANCIAL POSITION

Note	31 December 2016	31 December 2015
<b>Assets</b>		
	71,304,638	63,681,109
Cash and deposits with central bank		
	90,429,286	84,329,728
Deposits with banks and other financial institutions		
	21,138,110	1,017,289
Placements with banks and other financial institutions		
	–	1,462,016
Financial assets at fair value through profit or loss		
	276,546	–
Derivative financial assets		
	16,039,394	32,252,183
Financial assets held under resale agreements		
	228,364,440	191,091,703
Loans and advances to customers		
Financial investments:		
Available-for-sale financial assets	46,288,907	27,359,926
Held-to-maturity investments	171,434,761	51,751,238
Loans and receivables	245,532,030	234,508,219
Investments in subsidiaries	22	326,157
	4,800,319	4,259,382
Property and equipment		
	1,406,339	461,422
Deferred tax assets		
Other assets	7,373,340	8,578,147
	<u>904,714,267</u>	<u>700,898,519</u>
<b>Total assets</b>		
<b>Liabilities</b>		
	118,800,000	6,800,000
Borrowings from central bank		
	143,634,051	100,703,133
Deposits from banks and other financial institutions		
	38,936,401	11,370,469
Placements from banks and other financial institutions		
	14,206	–
Derivative financial liabilities		
	40,285,591	47,085,568
Financial assets sold under repurchase agreements		
	414,850,000	402,038,944
Deposits from customers		
	1,018,122	775,440
Income tax payable		
	87,289,181	78,485,436
Debt securities issued		
Other liabilities	14,126,040	12,395,583
	<u>858,953,592</u>	<u>659,654,573</u>
<b>Total liabilities</b>		

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 48 BANK-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)

	Note	31 December 2016	31 December 2015
<b>Equity</b>			
Share capital	33	5,796,680	5,796,680
Capital reserve	33	11,855,505	11,855,505
Surplus reserve	33	4,666,968	3,893,846
General reserve	33	9,263,993	6,173,630
Fair value reserve	33	(92,044)	623,163
Deficit on remeasurement of net defined benefit liability	33	(5,468)	(5,126)
Retained earnings	33	14,275,041	12,906,248
<b>Total equity</b>		<b>45,760,675</b>	<b>41,243,946</b>
<b>Total liabilities and equity</b>		<b>904,714,267</b>	<b>700,898,519</b>

Approved and authorised for issue by the board of directors on 17 March 2017.

**Wang Yigong**

*Authorised Legal Representative/  
Executive Director/Vice President/  
Chief Risk Officer*

**Liu Zhiyan**

*Chief Financial Officer*

Company chop

### 49 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 36.

Except for the above, the Group has no other significant non-adjusted events subsequent to the end of the reporting period as at the date of approval to the financial statements.



# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of RMB, unless otherwise stated)

The information set out below does not form part of the interim financial report, and is included herein for information purpose only.

## 1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO

### (a) Liquidity coverage ratio

	As at 31 December 2016	Average for the year ended 31 December 2016	As at 31 December 2015	Average for the year ended 31 December 2015
Liquidity coverage ratio (RMB and foreign currency)	<b>184.22%</b>	<b>160.67%</b>	156.45%	130.36%

The above liquidity coverage ratio is calculated in accordance with the formula promulgated by the China Banking Regulatory Commission (the "CBRC") and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance ("MOF").

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 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

The Hong Kong Banking (Disclosure) Rules (the "Rules") took effect on 1 January 2007. It requires the disclosure of an average liquidity coverage ratio, which is the arithmetic mean of the liquidity coverage ratio for each calendar quarter. The Group prepares the liquidity coverage ratio on a semi-annual basis and the disclosed average liquidity coverage ratio is the arithmetic mean of two consecutive liquidity coverage ratio as at 30 June and 31 December.

### (b) Leverage ratio

	31 December 2016	31 December 2015
Leverage ratio	<b>4.38%</b>	4.66%

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) issued by the CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio is calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the MOF.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(Expressed in thousands of RMB, unless otherwise stated)

### 2 CURRENCY CONCENTRATIONS

	31 December 2016			
	US Dollars (RMB Equivalent)	HK Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Spot assets	18,416,036	204,266	814,043	19,434,345
Spot liabilities	(28,501,578)	(313,772)	(814,043)	(29,629,393)
Net long position	(10,085,542)	(109,506)	–	(10,195,048)

	31 December 2015			
	US Dollars (RMB Equivalent)	HK Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Spot assets	6,689,923	167,911	734,818	7,592,652
Spot liabilities	(5,953,579)	(145,409)	(734,818)	(6,833,806)
Net long position	736,344	22,502	–	758,846

The Group has no structural position at the reporting periods.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(Expressed in thousands of RMB, 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 and claims dominated in foreign currency on third parties in Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions, and investments in debt securities.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	As at 31 December 2016			Total
	Official sector	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	80,130	14,539,342	3,588,617	18,208,089
North and South America	–	1,168,506	–	1,168,506
Europe	–	28,131	–	28,131
<b>Total</b>	<b>80,130</b>	<b>15,735,979</b>	<b>3,588,617</b>	<b>19,404,726</b>

	As at 31 December 2015			Total
	Official sector	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	54,658	234,711	4,785,396	5,074,765
North and South America	–	643,826	–	643,826
Europe	–	9,972	–	9,972
<b>Total</b>	<b>54,658</b>	<b>888,509</b>	<b>4,785,396</b>	<b>5,728,563</b>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(Expressed in thousands of RMB, unless otherwise stated)

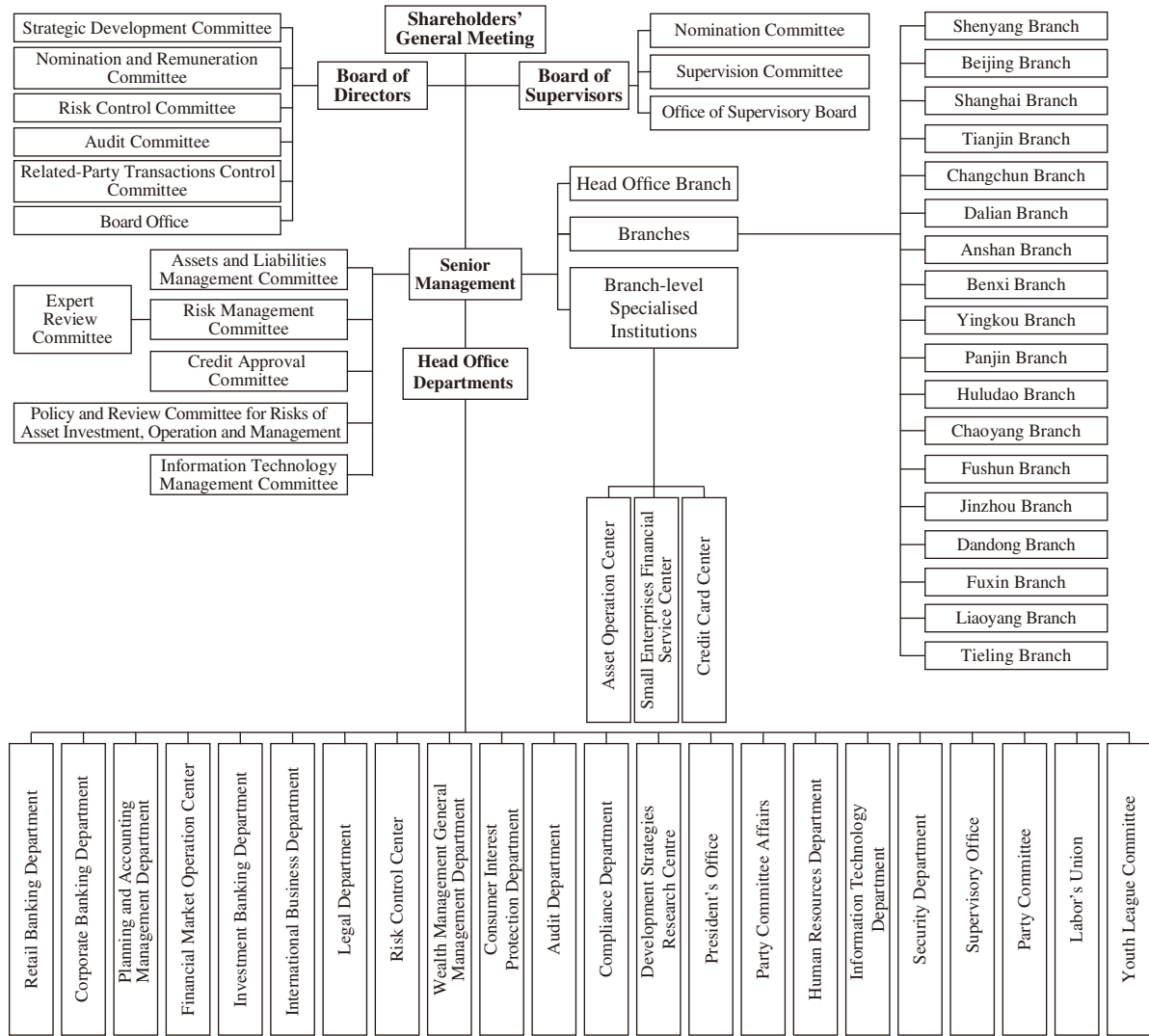
### 4 OVERDUE LOANS AND ADVANCES BY GEOGRAPHICAL SEGMENTS

	31 December 2016	31 December 2015
Northeast China	5,684,495	943,733
North China	293,022	101,185
Others	188,818	6,000
Total	<b>6,166,335</b>	<b>1,050,918</b>

### 5 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES FOR MORE THAN 90 DAYS

	31 December 2016	31 December 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)	288,897	49,732
– between 6 months and 1 year (inclusive)	3,044,993	351,552
– over 1 year	570,469	173,534
Total	<b>3,904,359</b>	<b>574,818</b>
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.12%	0.03%
– between 6 months and 1 year (inclusive)	1.30%	0.18%
– over 1 year	0.24%	0.09%
Total	<b>1.66%</b>	<b>0.30%</b>

# ORGANISATIONAL CHART



## LIST OF BRANCHES

As at 31 December 2016, the Bank has a total of 190 institutions, branches and sub-branches, including 1 institution with legal person status, 3 specialised institutions, 18 branches, 7 small and micro sub-branches and 161 sub-branches, details of which are set out as follows:

Geographical					
Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
Head Office	Shengjing Bank Co., Ltd.	No. 109, North Station Road, Shenhe District, Shenyang City	024-22535995	110013	024-22535995
Liaoning Province	Shenyang Branch of Shengjing Bank Co., Ltd.	No. 2A, Wuai Street, Shenhe District, Shenyang City	024-83962659	110013	024-83962659
	Shenyang Xinmin Sub-Branch of Shengjing Bank Co., Ltd.	No. 3, Zhongxing East Road, Xinmin City	024-27601509	110300	024-27601509
	Shenyang Hongxia Sub-Branch of Shengjing Bank Co., Ltd.	No. 38, Beiwujing Street, Heping District, Shenyang City	024-62250313	110003	024-62250313
	Shenyang Nanshi Sub-Branch of Shengjing Bank Co., Ltd.	No. 7, Nansanjing Street, Shenhe District, Shenyang City	024-22710606	110013	024-22710606
	Shenyang Xiaoxi Road Sub-Branch of Shengjing Bank Co., Ltd.	Unit 1, Floor 1, Tower B, No. 59-1, Qingnian Street, Shenhe District, Shenyang City	024-62250411	110014	024-62250411
	Shenyang Taiyuan Sub-Branch of Shengjing Bank Co., Ltd.	No. 92, Shengli South Street, Heping District, Shenyang City	024-83507595	110051	024-83507595
	Shenyang Yuanlu Sub-Branch of Shengjing Bank Co., Ltd.	No. 21, North 4th Road, Heping District, Shenyang City	024-22712059	110001	024-22712059
	Shenyang Hetai Sub-Branch of Shengjing Bank Co., Ltd.	Gate 3, No. 107, Nanjing North Street, Heping District, Shenyang City	024-22870771	110001	024-22870771
	Shenyang Medical University Sub-Branch of Shengjing Bank Co., Ltd.	No. 92, North 2nd Road, Heping District, Shenyang City	024-22700070	110001	024-22700070
	Shenyang Beishi Sub-Branch of Shengjing Bank Co., Ltd.	No. 218, Shifu Avenue, Heping District, Shenyang City	024-62502761	110001	024-62502761
	Shenyang South Station Sub-Branch of Shengjing Bank Co., Ltd.	No. 38, Zhongshan Road, Heping District, Shenyang City	024-83465528	110001	024-83465528
	Shenyang Tianhe Sub-Branch of Shengjing Bank Co., Ltd.	Unit 101 & 102, No. 5, Zhongshan Road, Heping District, Shenyang City	024-22834041	110001	024-22834041
	Shenyang Sujiatun Sub-Branch of Shengjing Bank Co., Ltd.	No. 60, Fengyang Road, Sujiatun District, Shenyang City	024-89811197	110101	024-89811137
	Shenyang Changbai Sub-Branch of Shengjing Bank Co., Ltd.	A1 & 2, No. 62, Changbai West Road, Heping District, Shenyang City	024-23732950	110001	024-23732950

## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Shenyang Fengyang Sub-Branch of Shengjing Bank Co., Ltd.	Gate 1 and 53, No. 107, Fengyang Road, Sujiatun, Shenyang City	024-89825773	110101	024-89825773
	Shenyang Huashan Sub-Branch of Shengjing Bank Co., Ltd.	No. 76, Harbin Road, Heping District, Shenyang City	024-22501048	110001	024-22501048
	Shenyang Lingdong Sub-Branch of Shengjing Bank Co., Ltd.	1-8A-B, No. 19, Heilongjiang Street, Huanggu District, Shenyang City	024-86252574	110033	024-86252574
	Shenyang West Tower Sub-Branch of Shengjing Bank Co., Ltd.	No. 42, West Tower Street, Heping District, Shenyang City	024-23469142	110001	024-23469142
	Shenyang Huaxin Sub-Branch of Shengjing Bank Co., Ltd.	No. 12, Huashan Road, Huanggu District, Shenyang City	024-86413380	110031	024-86413380
	Shenyang Xinhe Sub-Branch of Shengjing Bank Co., Ltd.	No. 98, Shashan Street, Heping District, Shenyang City	024-23304214	110005	024-23304214
	Shenyang Huoju Sub-Branch of Shengjing Bank Co., Ltd.	No. 262 A, Shifu Avenue, Shenhe District, Shenyang City	024-22502968	110013	024-22502968
	Shenyang Sanhao Sub-Branch of Shengjing Bank Co., Ltd.	No. 87 A-1, South Sanhao Street, Heping District, Shenyang City	024-23992357	110057	024-23992357
	Shenyang Jiaoyu Sub-Branch of Shengjing Bank Co., Ltd.	No. 55, 2nd Longitude Street, Shenhe District, Shenyang City	024-22840330	110068	024-22840330
	Shenyang Keji Sub-Branch of Shengjing Bank Co., Ltd.	Gate 2 (Floors 1-2), No. 318, Qingnian Street, Heping District, Shenyang City	024-23997390	110001	024-23842504
	Shenyang Dongquan Sub-Branch of Shengjing Bank Co., Ltd.	No. 16, Quanyuan 1st Road, Shenhe District, Shenyang City	024-24233911	110015	024-24233911
	Shenyang Nanhu Sub-Branch of Shengjing Bank Co., Ltd.	No. 21 A-1, Sanhao Street, Heping District, Shenyang City	024-23895215	110001	024-23895215
	Shenyang Heping Sub-Branch of Shengjing Bank Co., Ltd.	No. 96, Taiyuan South Street, Heping District, Shenyang City	024-23518649	110001	024-23518649
	Shenyang Nanjing Street Sub-Branch of Shengjing Bank Co., Ltd.	No. 45, Nanjing South Street, Heping District, Shenyang City	024-23523225	110001	024-23523225
	Shenyang Shengli Sub-Branch of Shengjing Bank Co., Ltd.	No. 14 and 16, Changbai 4th Street, Heping District, Shenyang City	024-23523044	110166	024-23523044

## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Shenyang Dongxing Sub-Branch of Shengjing Bank Co., Ltd.	No. 429 (Gates 11-12), Da'nán Street, Shenhe District, Shenyang City	024-24516360	110016	024-24516360
	Shenyang Baogong Sub-Branch of Shengjing Bank Co., Ltd.	No. 15, Baogong South Street, Tiexi District, Shenyang City	024-25877959	110027	024-25642938
	Shenyang Baoxing Sub-Branch of Shengjing Bank Co., Ltd.	No. 29, Xinghua North Street, Tiexi District, Shenyang City	024-25112720	110027	024-25112720
	Shenyang Tengfei Sub-Branch of Shengjing Bank Co., Ltd.	No. 57, Tengfei 1st Street, Tiexi District, Shenyang City	024-25931567	110027	024-25931567
	Shenyang Xinggong Sub-Branch of Shengjing Bank Co., Ltd.	No. 108, Xinggong North Street, Tiexi District, Shenyang City	024-62635353	110013	024-62635353
	Shenyang Tiexi Sub-Branch of Shengjing Bank Co., Ltd.	No. 31, Jianshe Middle Road, Tiexi District, Shenyang City	024-25845362	110021	024-25845362
	Shenyang Mazhuang Sub-Branch of Shengjing Bank Co., Ltd.	No. 19, Mazhuang Street, Tiexi District, Shenyang City	024-25728349	110023	024-25728349
	Shenyang Xinghua Sub-Branch of Shengjing Bank Co., Ltd.	No. 14, Yanhua Street, Tiexi District, Shenyang City	024-25964572	110021	024-25964572
	Shenyang Jianshe Avenue Sub-Branch of Shengjing Bank Co., Ltd.	No. 8, Jianshe Middle Road, Tiexi District, Shenyang City	024-25866380	110021	024-25866380
	Shenyang Yuhong Sub-Branch of Shengjing Bank Co., Ltd.	No. 10, Huanghai Road, Yuhong District, Shenyang City	024-25833006	110144	024-25302940
	Shenyang Tiecheng Sub-Branch of Shengjing Bank Co., Ltd.	No. 36, Zhaogong South Street, Tiexi District, Shenyang City	024-25717902	110027	024-25717902
	Shenyang Shuangxi Sub-Branch of Shengjing Bank Co., Ltd.	No. 88, Zhonggong South Street, Tiexi District, Shenyang City	024-25787387	110027	024-25787387
	Shenyang Zhangshi Sub-Branch of Shengjing Bank Co., Ltd.	No. 212, Shenliao Road, Shenyang Economic and Technological Development Zone	024-25280910	110027	024-25280910



## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Shenyang Economic and Technological Development Zone Sub-Branch of Shengjing Bank Co., Ltd.	No. 21-A-5, Central Street, Shenyang Economic and Technological Development Zone	024-62836295	110142	024-62836295
	Shenyang Jingxing Sub-Branch of Shengjing Bank Co., Ltd.	No. 178, Xingshun Street, Tiexi District, Shenyang City	024-25445702	110027	024-25445702
	Shenyang Huaxiang Sub-Branch of Shengjing Bank Co., Ltd.	No. 18, Huaxiang Road, Tiexi District, Shenyang City	024-25890701	110027	024-25890701
	Shenyang Xingshun Sub-Branch of Shengjing Bank Co., Ltd.	No. 84, Xingshun South Street, Tiexi District, Shenyang City	024-25603723	110027	024-25603723
	Shenyang Shenhe Sub-Branch of Shengjing Bank Co., Ltd.	No. 2, Zhongjie Street, Shenhe District, Shenyang City	024-84842085	110011	024-84842085
	Shenyang Shangyuan Sub-Branch of Shengjing Bank Co., Ltd.	No. 34-A, Shangyuan Road, Dadong District, Shenyang City	024-88326157	110041	024-88326157
	Shenyang Changqing Sub-Branch of Shengjing Bank Co., Ltd.	Gate 6, 7, 8 & 9, No. 17-25, Changqing South Street, Dongling District, Shenyang City	024-31263205	110168	024-31263205
	Shenyang North Station Sub-Branch of Shengjing Bank Co., Ltd.	No. 27, Huigong East 1st Street, Shenhe District, Shenyang City	024-88522500	110013	024-88522942
	Shenyang Yinhe Sub-Branch of Shengjing Bank Co., Ltd.	No. 180, Xiaonan Street, Shenhe District, Shenyang City	024-24187108	110013	024-24187108
	Shenyang Binhe Sub-Branch of Shengjing Bank Co., Ltd.	No. 92, Da'nán Street, Shenhe District, Shenyang City	024-24810579	110013	024-24810579
	Shenyang Wu'ai Market Sub-Branch of Shengjing Bank Co., Ltd.	No. 65, Re'nao Road, Shenhe District, Shenyang City	024-24800326	110013	024-24800326
	Shenyang Hengxin Sub-Branch of Shengjing Bank Co., Ltd.	No. 51, Re'nao Road, Shenhe District, Shenyang City	024-31290372	110013	024-31290372

## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Shenyang Zhenghao Sub-Branch of Shengjing Bank Co., Ltd.	No. 68, Pangjiang Street, Dadong Street, Shenyang City	024-24352501	110041	024-24352501
	Shenyang Quanyuan Sub-Branch of Shengjing Bank Co., Ltd.	No. 7, Fengle 2nd Street, Shenhe District, Shenyang City	024-24829409	110167	024-24829409
	Shenyang Liaoshen Sub-Branch of Shengjing Bank Co., Ltd.	No. 15, Jixiang 4th Road, Dadong District, Shenyang City	024-88113032	110041	024-88113032
	Shenyang Dongshuncheng Sub-Branch of Shengjing Bank Co., Ltd.	No. 2, Dongshuncheng Road, Shenhe District, Shenyang City	024-24867743	110042	024-24840919
	Shenyang Jilong Sub-Branch of Shengjing Bank Co., Ltd.	Gate 4, No. 68, Dadong Road, Dadong District, Shenyang City	024-24321649	110041	024-24321649
	Shenyang Dadong Road Sub-Branch of Shengjing Bank Co., Ltd.	No. 116, Dongshuncheng Street, Dadong District, Shenyang City	024-24845070	110041	024-24845070
	Shenyang Jinsha Sub-Branch of Shengjing Bank Co., Ltd.	No. 187, Daxi Road, Shenhe District, Shenyang City	024-22973253	110013	024-22973253
	Shenyang Zhongxing Sub-Branch of Shengjing Bank Co., Ltd.	No. 10, Zhongxing Street, Heping District, Shenyang City	024-23257337	110001	024-23218962
	Shenyang Wenyi Road Sub-Branch of Shengjing Bank Co., Ltd.	No. 2, Wu'ai Street, Shenhe District, Shenyang City	024-22973289	110013	024-22973289
	Shenyang Zhongshan Sub-Branch of Shengjing Bank Co., Ltd.	No. 206, Zhongshan Road, Shenhe District, Shenyang City	024-22852026	110013	024-22852026
	Shenyang Zhenxing Sub-Branch of Shengjing Bank Co., Ltd.	Floor 1-3, Tower I, No. 181A, South 5th Road, Heping District, Shenyang City	024-23851150	110006	024-23851150
	Shenyang Donghuan Sub-Branch of Shengjing Bank Co., Ltd.	Gate 4 & 5, No. 37, Shentie Road, Dadong District, Shenyang City	024-22712154	110013	024-22712154

## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Shenyang Nanliu Sub-Branch of Shengjing Bank Co., Ltd.	No. 16, South 8th Road, Heping District, Shenyang City	024-23508046	110005	024-23518201
	Shenyang Minzhu Sub-Branch of Shengjing Bank Co., Ltd.	No. 78, Heping North Street, Heping District, Shenyang	024-23266349	110001	024-23266349
	Shenyang Zhaogong Sub-Branch of Shengjing Bank Co., Ltd.	No. 3, Block 35, No. 26-A, North 2nd West Road, Tiexi District, Shenyang City	024-23830881	110026	024-25826756
	Shenyang Hemu Road Sub-Branch of Shengjing Bank Co., Ltd.	No. 15, Jinqiao Road, Dadong District, Shenyang City	024-24318875	110041	024-24318875
	Shenyang Bajiazi Sub-Branch of Shengjing Bank Co., Ltd.	No. 22, Dongling West Road, Dadong District, Shenyang City	024-88441405	110041	024-88441405
	Shenyang Dongbei Avenue Sub-Branch of Shengjing Bank Co., Ltd.	Gate 2, No. 301-19, Dongbei Avenue, Dadong District, Shenyang City	024-88217598	110098	024-88217598
	Shenyang Dongling Sub-Branch of Shengjing Bank Co., Ltd.	No. 105A, Wanliutang Road, Dongling District, Shenyang City	024-24200020	110167	024-24200020
	Shenyang Fengle Sub-Branch of Shengjing Bank Co., Ltd.	Gate 4, No. 72, Wenhua East Road, Shenhe District, Shenyang City	024-24222193	110167	024-24222193
	Shenyang Hunnan Sub-Branch of Shengjing Bank Co., Ltd.	Room 128, Floor 1, Block D, No. 109-4, Quanyun North Road, Hunnan New District, Shenyang City	024-83766268	110167	024-83766268
	Shenyang Hepan New Town Sub-Branch of Shengjing Bank Co., Ltd.	Gate 10 & 11, No. 1-436, Hengda Road, Hunnan New District, Shenyang City	024-24564181	110180	024-24564181
	Shenyang Wanquan Sub-Branch of Shengjing Bank Co., Ltd.	No. 35, Changqing Street, Shenhe District, Shenyang City	024-24212158	110015	024-24212158
	Shenyang Jiahe Sub-Branch of Shengjing Bank Co., Ltd.	Gate 7, No. 1, Fangming Street, Shenhe District, Shenyang City	024-24628495	110015	024-24628495
	Shenyang 204 Sub-Branch of Shengjing Bank Co., Ltd.	No. 14, Liming 5th Street, Dadong District, Shenyang City	024-88417845	110043	024-88417845
	Shenyang Dongmao Road Sub-Branch of Shengjing Bank Co., Ltd.	Gate 2& 3, No. 18A-42, Dongling Road, Shenhe District, Shenyang City	024-88421161	110161	024-88421161

## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Shenyang Shenbei New District Sub-Branch of Shengjing Bank Co., Ltd.	No. 32, Yinhe Street, Shenbei New District, Shenyang City	024-89603246	110129	024-89603246
	Shenyang Daoyi Sub-Branch of Shengjing Bank Co., Ltd.	Gate 3 & 4, No. 55-5, Daoyi North Street, Shenbei New District, Shenyang City	024-89798932	110036	024-89798932
	Shenyang Yaming Sub-Branch of Shengjing Bank Co., Ltd.	No. 100, Kunshan Middle Road, Huanggu District, Shenyang City	024-86853560	110031	024-86853560
	Shenyang Tawan Sub-Branch of Shengjing Bank Co., Ltd.	Gate 1-2, No. 142, Kunshan West Road, Huanggu District, Shenyang City	024-86722014	110031	024-86722014
	Shenyang Ningshan Sub-Branch of Shengjing Bank Co., Ltd.	No. 64, Ningshan Middle Road, Huanggu District, Shenyang City	024-86248026	110031	024-86248026
	Shenyang Yalu River Sub-Branch of Shengjing Bank Co., Ltd.	Gate 11, No. 63, Yalu River Street, Huanggu District, Shenyang City	024-86620510	110032	024-86620510
	Shenyang Beihuan Sub-Branch of Shengjing Bank Co., Ltd.	No. 46, North Changjiang Street, Yuhong District, Shenyang City	024-86166201	110031	024-86166201
	Shenyang Changjiang Sub-Branch of Shengjing Bank Co., Ltd.	No. 59, Changjiang Street, Huanggu District, Shenyang City	024-86240850	110031	024-86240850
	Shenyang Songling Sub-Branch of Shengjing Bank Co., Ltd.	No. 88, Huanghe North Street, Yuhong District, Shenyang City	024-86520786	110144	024-86525512
	Shenyang Nujiang Sub-Branch of Shengjing Bank Co., Ltd.	Gate 1-1, 1-2, 1-3, 1-4, No. 36-7, Beigu Mountain Road, Yuhong District, Shenyang City	024-86515855	110031	024-86515855
	Shenyang Nenjiang Sub-Branch of Shengjing Bank Co., Ltd.	No. 100, Nenjiang Street, Huanggu District, Shenyang City	024-86250963	110031	024-86250963
	Shenyang Taishan Sub-Branch of Shengjing Bank Co., Ltd.	No. 8, Chongshan East Road, Yuhong District, Shenyang City	024-86629596	110144	024-86629576
	Shenyang Wuyi Sub-Branch of Shengjing Bank Co., Ltd.	No. 58, Liaohe Street, Huanggu District, Shenyang City	024-86840414	110031	024-86840414
	Shenyang Xianggong Sub-Branch of Shengjing Bank Co., Ltd.	No. 215, Huashan Road, Huanggu District, Shenyang City	024-86872900	110035	024-86872900

## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Shenyang Dabeiguan Sub-Branch of Shengjing Bank Co., Ltd.	Gate 4, No. 42, Dabeiguan Street, Dadong District, Shenyang City	024-88565286	110041	024-88565286
	Shenyang Faku Sub-Branch of Shengjing Bank Co., Ltd.	Jixiang Street, Faku Town, Faku County	024-31109166	110401	024-31109166
	Shenyang Kangping Sub-Branch of Shengjing Bank Co., Ltd.	Jianshe Street, Kangping Town, Kangping County	024-87335672	110500	024-87335672
	Shenyang Liaozhong Sub-Branch of Shengjing Bank Co., Ltd.	No. 106, Zhengfu Road, Liaozhong Town, Liaozhong County	024-87880580	110200	024-87880580
	Shenyang Yunfeng Sub-Branch of Shengjing Bank Co., Ltd.	No. 98, Xishuncheng Street, Shenhe District, Shenyang City	024-22535881	110013	024-22535881
	Shenyang Huixin Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 10-92, Puhe North Road, Shenbei New District, Shenyang City	024-31851280	110136	024-31851280
	Shenyang Huanghe Sub-Branch of Shengjing Bank Co., Ltd.	Gate 1, No. 111, Huanghe South Street, Huanggu District, Shenyang City	024-86250963	110031	024-86250963
	Dalian Branch of Shengjing Bank Co., Ltd.	No. 160, Jiefang Road, Zhongshan District, Dalian City	0411-82566666	116001	0411-82311081
	Dalian Development Zone Sub-Branch of Shengjing Bank Co., Ltd.	No. 37-1, Liaohe West Road, Dalian Economic and Technological Development Zone	0411-87571166	116600	0411-87188961
	Dalian Wafangdian Sub-Branch of Shengjing Bank Co., Ltd.	No. 559-7, 8 & 9, Zhufeng Street, Wenlan Street Office, Wafangdian City	0411-85552255	116300	0411-85552329
	Dalian Wusi Sub-Branch of Shengjing Bank Co., Ltd.	No. 10, Wusi Square, Shahekou District, Dalian City	0411-84652233	116021	0411-84650976
	Dalian Xinghai Sub-Branch of Shengjing Bank Co., Ltd.	No. 582, Zhongshan Road, Shahekou District, Dalian City	0411-88144433	116021	0411-88134386
	Yingkou Branch of Shengjing Bank Co., Ltd.	No. 17, Riyue Avenue, Yingkou Economic and Technological Development Zone	0417-6818666	115007	0417-6818962

## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Yingkou Dashiqiao Sub-Branch of Shengjing Bank Co., Ltd.	No. 28, Hada Middle Road, Dashiqiao City	0417-5826677	115100	0417-4887702
	Yingkou Shifu Sub-Branch of Shengjing Bank Co., Ltd.	No. 1-A-A-1, Huibin Road, Zhanqian District, Yingkou City	0417-4887700	115000	0417-5826677
	Yingkou Huimin Sub-Branch of Shengjing Bank Co., Ltd.	No. 21, Riyue Avenue, Yingkou Economic and Technological Development Zone	0417-6166642	115007	0417-6166642
	Yingkou Xuefu Sub-Branch of Shengjing Bank Co., Ltd.	No. 9-A4, North Xuefu Road, Zhanqian District, Yingkou City	0417-2922345	115000	0417-2922345
	Yingkou Gaizhou Sub-Branch of Shengjing Bank Co., Ltd.	No. 101.201, 102.202, 103.203, Unit 2, Building 10, Longsheng Huayuan, Xinxing Community, Xicheng Street Office, Gaizhou City	0417-7331666	115200	0417-7397003
	Yingkou Kunlun Sub-Branch of Shengjing Bank Co., Ltd.	No. 8-2, South Section, Kunlun Street, Bayuquan District, Yingkou City	0417-6166600	115007	0417-6166629
	Huludao Branch of Shengjing Bank Co., Ltd.	Building L&B, No. 145, Longwan Street, Longgang District, Huludao City	0429-3026666	125000	0429-3023015
	Huludao Lianshan Sub-Branch of Shengjing Bank Co., Ltd.	Building A, No. 5, Lianshan Street, Lianshan District, Huludao City	0429-3023067	125000	0429-3023067
	Huludao Longgang Sub-Branch of Shengjing Bank Co., Ltd.	No. 28, Longwan Street, Longgang District, Huludao City	0429-3023099	125000	0429-3023055
	Huludao Xingcheng Sub-Branch of Shengjing Bank Co., Ltd.	Bihai Yaju Community, Diaoyutai Street Office, Xingcheng City	0429-5677773	125100	0429-5677773
	Huludao Suizhong Sub-Branch of Shengjing Bank Co., Ltd.	No. 11, Section 2, Central Road, Suizhong County, Huludao City	0429-3258002	125200	0429-3258009
	Huludao East Xingcheng Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 28, Guangchang West Road, Xingcheng County-level City, Huludao City	0429-5813355	125100	0429-5813355
	Huludao Dongcheng Sub-Branch of Shengjing Bank Co., Ltd.	Building A, B, C, No. 3-5, Fumin Street, Lianshan District, Huludao City	0429-3220707	125000	0429-3220708
	Anshan Branch of Shengjing Bank Co., Ltd.	No. 5-A, Hunan Street, Tiedong District, Anshan City	0412-5931002	114000	0412-5939998
	Anshan Tiedong Sub-Branch of Shengjing Bank Co., Ltd.	No. 24, Hunan Street, Tiedong District, Anshan City	0412-5841266	114000	0412-5841266

## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Anshan Tiexi Sub-Branch of Shengjing Bank Co., Ltd.	No. 178-S1, S2, S3 & S4, Jiudao Street, Tiexi District, Anshan City	0412-8592299	114000	0412-8592299
	Anshan Haicheng Sub-Branch of Shengjing Bank Co., Ltd.	No. 4, Building 6-1, Baihuixiangshan Community, Dongguan Community, Haizhou Administrative Zone, Haicheng County-level City, Anshan City	0412--3355977	114200	0412--3355977
	Anshan Xinxing of Shengjing Bank Co., Ltd.	No. 9-7, Guangming Street, Lishan District, Anshan City	0412-5916280	114000	0412-5916280
	Anshan Shengli Sub-Branch of Shengjing Bank Co., Ltd.	No. 9-11, 9-12, Wuyi Road, Tiedong District, Anshan City	0412-5939993	114000	0412-5939993
	Benxi Branch of Shengjing Bank Co., Ltd.	No.4, Donming Road, Pingshan District, Benxi City	024-43106888	117000	024-43106881
	Benxi Mingshan Sub-Branch of Shengjing Bank Co., Ltd.	No. 102, Jiefang North Road, Xinfeng Street, Mingshan District, Benxi City	024-45580666	117000	024-45580600
	Benxi Shengli Road Sub-Branch of Shengjing Bank Co., Ltd.	Building 57, Shengli Road, Mingshan District, Benxi City	024-42966688	117000	024-42966133
	Benxi Pingshan Sub-Branch of Shengjing Bank Co., Ltd.	No. 8, Building 31-6, Pingshan Road, Pingshan District, Benxi City	024-42966999	117000	024-42966199
	Benxi County Sub-Branch of Shengjing Bank Co., Ltd.	No. 331, Changjiang Road, Xiaoshi Town, Benxi Manchu Autonomous County, Liaoning Province	024-43336111	117100	024-43335806
	Panjin Branch of Shengjing Bank Co., Ltd.	No. 136, Xinglongtai Street, Xinglongtai District, Panjin City	0427-3290933	124000	0427-3290908
	Panjin Development Zone Sub-Branch of Shengjing Bank Co., Ltd.	No. 236, Taishan Road, Xinglongtai District, Panjin City	0427-3267088	124000	0427-3290908
	Panjin Liaohe Oil Field Sub-Branch of Shengjing Bank Co., Ltd.	No. 1-3 & 1-4, Xinyihe Community, Xinglongtai Street, Xinglongtai District, Panjin City	0427-3291090	124000	0427-3290908
	Panjin Panshan Sub-Branch of Shengjing Bank Co., Ltd.	Room 102, Floor 1, Venture Building, No. 8, Fuqian Street, Panshan County, Panjin City	0427-3710099	124000	0427-3290908
	Panjin Leyuan Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 41-1, Leyuan Road, Xinglongtai District, Panjin City	0427-6590799	124000	0427-3290908
	Panjin Jinxiang Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 182-10-6, Xinglongtai Street, Xinlongtai District, Panjin City	0427-7860290	124000	0427-3290908

## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Chaoyang Branch of Shengjing Bank Co., Ltd.	No. 3-5, 3-6 & 3-7, Section 2, Zhujiang Road, Shuangta District, Chaoyang City	0421-2705555	122000	0421-2705555
	Chaoyang Shuangta Sub-Branch of Shengjing Bank Co., Ltd.	No. 70, Section 4, Youyi Street, Shuangta District, Chaoyang City	0421-3999931	122000	0421-3999931
	Chaoyang Jianping Sub-Branch of Shengjing Bank Co., Ltd.	No. 59, Renmin Road, Jianping County, Chaoyang City	0421-7868222	122000	0421-7868222
	Fushun Branch of Shengjing Bank Co., Ltd.	Room 2, 3 & 4, No. 57-7, Linjiang East Road, Shuncheng District, Fushun City	024-53903666	113006	024-53908003
	Fushun Xinfu Sub-Branch of Shengjing Bank Co., Ltd.	Shop 2, Building 2, Wugong Street, Xinfu District, Fushun City	024-53965666	113008	024-53965010
	Fushun Wanghua Sub-Branch of Shengjing Bank Co., Ltd.	Shop 1 & 2, Building 23, West Section, Leifeng Road, Wanghua District, Fushun City	024-53978966	113001	024-53978977
	Jinzhou Branch of Shengjing Bank Co., Ltd.	No. 43-1, Area B of Lingyunli Manhattan, Taihe District, Jinzhou City	0416-2110900	121000	0416-2110911
	Jinzhou Yan'an Road Sub-Branch of Shengjing Bank Co., Ltd.	No.1-1, Jindijiayuan Community, Section 3, Yan'an Road, Guta District, Jinzhou City	0416-2110950	121000	0416-2110951
	Jinzhou Jiefang Road Sub-Branch of Shengjing Bank Co., Ltd.	No. 8, 9, Section 171, Hangzhou Street, Linghe District, Jinzhou City	0416-2110988	121000	0416-2110990
	Fuxin Branch of Shengjing Bank Co., Ltd.	Gate 12, 14, 16, 18, 20, 22, No. 86, Zhonghua Road, Haizhou District, Fuxin City	0418-5699999	123000	0418-5969933
	Dandong Branch of Shengjing Bank Co., Ltd.	No. 70, Qingnian Street, Zhenxing District, Dandong City	0415-2946666	118000	0415-2236111
	Dandong Donggang Sub-Branch of Shengjing Bank Co., Ltd.	No. 30, Jinxiu Jiayuan Community, Dadong Administrative Zone, Donggang County-level City, Dandong City	0415-2596666	118300	0415-2596666
	Liaoyang Branch of Shengjing Bank Co., Ltd.	No. 155, Wensheng Road, Baita District, Liaoyang City	0419—3630555	111000	0419-3679305
	Tieling Branch of Shengjing Bank Co., Ltd.	No. 18 1-1, Yinzhuo Road, Yinzhuo District, Tieling City	024-72276666	112000	024-72273098



## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
Beijing Municipality	Beijing Branch of Shengjing Bank Co., Ltd.	Tower D, Oriental Media Centre, No. 4, Guanghua Road, Chaoyang District, Beijing Municipality	010-85597777	100026	010-85570017
	Beijing Zhongguancun Sub-Branch of Shengjing Bank Co., Ltd.	Unit 108 & 109, Floor 1, No. 8, Haidian North 2nd Street, Haidian District, Beijing Municipality	010-82012999	100080	010-59718591
	Beijing Guanyuan Sub-Branch of Shengjing Bank Co., Ltd.	Shop 5, Building 1, Yard 9, Chegongzhuang Street, Xicheng District, Beijing Municipality	010-85251177	100044	010-85251177-8877
	Beijing Wukesong Sub-Branch of Shengjing Bank Co., Ltd.	Building 3, No. 69, Fuxing Road, Haidian District, Beijing Municipality	010-88199777	100038	010-88199292
	Beijing Shunyi Sub-Branch of Shengjing Bank Co., Ltd.	No. F1-57, 58 & F2-40b, Building 1, Yard 8, Xinchun South Street, Renhe Town, Shunyi District, Beijing Municipality	010-85886222	101300	010-61426808
	Beijing Daxing Sub-Branch of Shengjing Bank Co., Ltd.	No.26, Section 3, Xingye Street, Daxing District, Beijing Municipality	010-65820066	102600	010-69267611
	Beijing Shijingshan Sub-Branch of Shengjing Bank Co., Ltd.	Room 107, Floor 1, Building 2, Yunquan Xili Zone 1, Shijingshan District, Beijing Municipality	010-68636855	100040	010-68636875
Shanghai Municipality	Shanghai Branch of Shengjing Bank Co., Ltd.	Room 102, 103, 202, No. 1452, Hongqiao Road, Changning District, Shanghai Municipality	021-32097636	200336	021-32097719
	Shanghai Putuo Sub-Branch of Shengjing Bank Co., Ltd.	Room A8005-A8006, Floor 1, No. 1108, Zhenbei Road, Putuo District, Shanghai Municipality	021-60290531	200333	021-60290526
	Shanghai Pudong Sub-Branch of Shengjing Bank Co., Ltd.	No. 968, Pudong Avenue, China (Shanghai) Free Trade Experimental Zone	021-60191765	200120	021-60191755
	Shanghai Songjiang Sub-Branch of Shengjing Bank Co., Ltd.	Floor 1-2, No. 2, 4, 6, 8, 10, Lane 1855, Sixian Road, Songjiang District, Shanghai Municipality	021-67828575	201600	021-67827393
	Shanghai Changning Anlong Sub-Branch of Shengjing Bank Co., Ltd.	No.759, Anlong Road, Changning District, Shanghai Municipality	021-60791288	200336	021-60791278
	Shanghai Xuhui Sub-Branch of Shengjing Bank Co., Ltd.	Shop 107/108, Floor 1 & Shop 210/209, Floor 2, No. 75, Tianlin East Road, Xuhui District, Shanghai Municipality	021-61270576	200235	021-61270589
	Shanghai Huangpu Sub-Branch of Shengjing Bank Co., Ltd.	Unit 02, Floor 1, No. 689, Guangdong Road, Huangpu District, Shanghai Municipality	021-33316501	200001	021-63606217
Shanghai Yangpu Sub-Branch of Shengjing Bank Co., Ltd.	No. 166, 168, 170, Guoquan East Road, Yangpu District, Shanghai Municipality	021-55960686	200082	021-55960617	

## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
Tianjin City	Tianjin Branch of Shengjing Bank Co., Ltd.	Shopping Centre of Building 1, Wanshun Hot Spring Garden, Huangpu South Road, Hexi District, Tianjin City	022-28379999	300201	022-28379999
	Tianjin Huayuan Sub-Branch of Shengjing Bank Co., Ltd.	No. 150-04, 206, Yingshui Avenue, Huayuan Industrial Zone	022-58815628	300384	022-58815628
	Tianjin Binhai Sub-Branch of Shengjing Bank Co., Ltd.	No. 21-18, 2nd Street, Tianjin Development Zone	022-59835160	300457	022-59835160
	Tianjin Beichen Sub-Branch of Shengjing Bank Co., Ltd.	Unit 101, Building 4, Beichen Tower, Beichen District, Tianjin City	022-58687611	300400	022-58687611
	Tianjin Xiqing Sub-Branch of Shengjing Bank Co., Ltd.	No. 12-22, Jinfeng Road, Xiqing District, Tianjin City	022-58335697	300380	022-58335697
	Tianjin Hedong Sub-Branch of Shengjing Bank Co., Ltd.	No. 1 & 2, Floor 1, No. 70, Huachang Road, Hedong District, Tianjin City	022-24410278	300011	022-24410278
	Tianjin Hebei Sub-Branch of Shengjing Bank Co., Ltd.	No. 20, Wangchuanchang 5th Road, Hebei District, Tianjin City	022-58885918	300150	022-58885918
	Tianjin Heping Sub-Branch of Shengjing Bank Co., Ltd.	No. 5, Xikang Road, Building 1 & 2, Hekang Mingdi, Heping District, Tianjin City	022-59956312	300051	022-59956312
	Tianjin Dongli Sub-Branch of Shengjing Bank Co., Ltd.	Room 3-110, Guangfu Business Center, Dongli District, Tianjin City	022-84965926	300301	022-84965926
	Tianjin Jingtian Apartment Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	Zone 5-5-101A, Jingtian Apartment, Jiarongli Street, Beichen District, Tianjin City	022-86690930	300134	022-86690930
	Tianjin Xilaida Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 22-2, Zilu North Road, Wang Village, Dasi Town, Xiqing District, Tianjin City	022-83904179	300385	022-83904179
Changchun City	Changchun Branch of Shengjing Bank Co., Ltd.	No. 61, Gongnong Avenue, Chaoyang District, Changchun City	0431-81958888	130000	0431-81958888
	Changchun Dongsheng Sub-Branch of Shengjing Bank Co., Ltd.	No. 1999, Jilin Avenue, Erdao District, Changchun City	0431-81970386	130000	0431-81970386
	Changchun Xi'an Avenue Sub-Branch of Shengjing Bank Co., Ltd.	No. 8, Xi'an Avenue, Chaoyang District, Changchun City	0431-89828555	130000	0431-89828555
	Changchun Xiangyun Sub-Branch of Shengjing Bank Co., Ltd.	No. 1438, Xiangyun Street, Lvyan District, Changchun City	0431-89297707	130000	0431-89297707

## LIST OF BRANCHES (Continued)

Geographical Region	Name of Institutions	Business Address	Telephone	Postcode	Fax
	Changchun Nanhu Avenue Sub-Branch of Shengjing Bank Co., Ltd.	No. 1999, Nanhu Avenue, Nanguan District, Changchun City	0431-81901267	130000	0431-81901267
	Changchun Quan Lou Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 18, Chongqing Hutong, Nanguan District, Changchun City	0431-89305466	130000	0431-89305466
	Changchun Ziyou Avenue Sub-Branch of Shengjing Bank Co., Ltd.	Block C, Yatai Haoyuan Community, No. 1008, Ziyou Avenue, Chaoyang District, Changchun City	0431-82008660	130000	0431-82008660
	Changchun Jilin City Sub-Branch of Shengjing Bank Co., Ltd.	Floor 2-4, Postal Tower, No. 2, Songjiang East Road, Changyi District, Jilin City	0432-62673888	132000	0432-62673888
	Changchun Yongchun Sub-Branch of Shengjing Bank Co., Ltd.	No. 88, 4th Road, Nanguan District, Changchun City	0431-28008676	130000	0431-28008676
Specialised institutions	Credit Card Center of Shengjing Bank Co., Ltd.	No. 109, North Station Road, Shenhe District, Shenyang City	024-22535816	110000	024-22535812
	Capital Operation Center of Shengjing Bank Co., Ltd.	No. 15, Baogong South Street, Tiexi District, Shenyang City	024-22535744	110000	024-22535744
	Small Business Financial Service Center of Shengjing Bank Co., Ltd.	No. 60, Fengyang Road, Sujiatun District, Shenyang City	024-22535859	110000	024-22535865

## DEFINITION

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In this 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
“A Share(s)”	ordinary share(s) proposed to be issued by the Bank pursuant to the A Share Offering and subscribed for in Renminbi, which will be listed on the Shenzhen Stock Exchange and traded in Renminbi
“A Share Offering”	the Bank’s proposed initial public offering of not more than 600,000,000 A Shares, which are proposed to be listed on the Shenzhen Stock Exchange
“Bank”, “Shengjing Bank”, or “We”	Shengjing Bank Co., Ltd. (盛京銀行股份有限公司), a joint stock limited company incorporated in the PRC on 10 September 1997 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 Liaoning Bureau”	China Banking Regulatory Commission Liaoning Bureau
“Director(s)”	the director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shares”	overseas-listed shares in the share capital of our Bank, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange

## DEFINITION (Continued)

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“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
“Latest Practicable Date”	24 March 2017, being the latest practicable date prior to the publication of this report for the purpose of ascertaining certain information contained in this report
“Listing Date”	29 December 2014, 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 report only, excluding Hong Kong, Macau and Taiwan
“Reporting Period”	the year ended 31 December 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

## DEFINITION (Continued)

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“Shenyang Hengxin”	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. (瀋陽恒信國有資產經營集團有限公司, formerly known as 瀋陽恒信國有資產經營有限公司), a company incorporated in the PRC on 10 April 2002, which held approximately 8.28% of the total issued share capital of the Bank as at the Latest Practicable Date
“State Council”	the State Council of the PRC
“Supervisor(s)”	the supervisor(s) of the Bank

