



徽商銀行股份有限公司 Huishang Bank Corporation Limited

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

Stock Code : 3698



Annual Report
2016

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Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meaning set out below.

“The Bank” or “Huishang Bank”	means Huishang Bank Corporation Limited, including its subsidiaries and branches
“CBRC”	means the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CSRC”	means the China Securities Regulatory Commission (中國證券監督管理委員會)
“CBRC Anhui Office”	means the China Banking Regulatory Commission Anhui Office (中國銀監會安徽監管局)
“Domestic Shares”	means the ordinary shares issued by the Bank in the PRC with a nominal value of RMB1.00
“Hong Kong”	means Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	means the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Latest Practicable Date”	means the latest practicable date for the purpose of ascertaining certain information contained in this annual report, i.e. 23 March 2017
“Listing”	means the listing of H shares of the Bank on the main board of the Hong Kong Stock Exchange
“Listing Date”	means the date on which dealings in the H shares of the Bank first commenced on the Hong Kong Stock Exchange, i.e. 12 November 2013
“Non-green Industries”	means the heavily-polluting, highly energy-consuming and over-capacity industries
“Three Dimensional Rural Issues”	abbreviation for issues related to agriculture, rural areas and farmers
“PBOC”	means the People’s Bank of China
“China” or “PRC”	means the People’s Republic of China
“Yuan” or “RMB”	means Renminbi, the lawful currency of China. Unless otherwise specified herein, the currency used in this annual report shall be Renminbi
“HK\$” or “Hong Kong dollars”	means Hong Kong dollars, the lawful currency of Hong Kong

Chapter I Corporate Information

1.1 CORPORATE INFORMATION

- 1.1.1 Statutory Chinese name: 徽商银行股份有限公司¹
Statutory English name: Huishang Bank Corporation Limited
- 1.1.2 Statutory representative: Li Hongming
Authorized representatives: Wu Xuemin, Ngai Wai Fung
Board of Directors secretary: Yi Feng
Company secretary: Ngai Wai Fung
- 1.1.3 Registered and business office address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
- 1.1.4 Contact address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
Tel: +86-0551-62667787
Fax: +86-0551-62667787
Post code: 230001
Bank's website: www.hsbank.com.cn
E-mail: djb@hsbank.com.cn
- 1.1.5 Principal place of business in Hong Kong: 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
- 1.1.6 Domestic auditor: PricewaterhouseCoopers Zhong Tian LLP
Office address: 11/F PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai, the PRC
International auditor: PricewaterhouseCoopers
Office address: 22/F, Prince's Building, Central, Hong Kong
- 1.1.7 Legal advisor as to PRC law: DeHeng Law Offices
Legal advisor as to Hong Kong law: Latham & Watkins
- 1.1.8 Domestic shares trustee agency: China Securities Depository and Clearing Corporation Limited
H share registrar: Computershare Hong Kong Investor Services Limited

Note: 1 Huishang Bank Corporation Limited is not an authorized 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 authorized to carry on banking/deposit-taking business in Hong Kong.

Chapter I Corporate Information

1.2 COMPANY PROFILE

Headquartered in Hefei, Anhui Province, Huishang Bank is the first regional joint stock commercial bank in the PRC established through the merger and reorganization of city commercial banks and urban credit cooperatives with the approval of the CBRC. The Bank was incorporated on 4 April 1997, and changed its name to Huishang Bank Corporation Limited on 30 November 2005. On 28 December 2005, the Bank officially merged with the 5 city commercial banks of Wuhu, Ma'anshan, Anqing, Huaibei and Bengbu and the 7 urban credit cooperatives of Lu'an, Huainan, Tongling, Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda in Anhui Province. The Bank officially opened for business on 1 January 2006. On 12 November 2013, H shares of the Bank was listed on the main board of the Hong Kong Stock Exchange (stock code: 3698). The Bank holds a financial institution license numbered B0162H234010001 from the CBRC Anhui Office and a legal entity business license numbered 340000000026144 from the Anhui Provincial Administration of Industry and Commerce. The registered address is Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC. As at the end of 2016, the registered capital of the Bank was approximately RMB11.05 billion. The Bank successfully issued overseas preferential shares with an amount of USD888 million in November 2016 and was listed on the Hong Kong Stock Exchange (stock code: 4608).

The Bank's principal activities in the PRC include the taking of deposits from corporate and retail customers, the granting of loans using the deposits received, and the conducting of capital business, which encompass money market activities, investment and trading activities and transactions on behalf of customers. As of 31 December 2016, Huishang Bank had 8,957 on-the-job employees. Apart from its headquarters, the Bank had 17 branches, 392 front offices (including 4 business department branches and 388 sub-branches) and 667 self-service areas (points). The Bank also has three subsidiaries, namely Huiyin Financial Leasing Co., Ltd, Jinzhai Huiyin Rural Bank Co., Ltd and Wuwei Huiyin Rural Bank Co., Ltd and owns equity interest in Chery Huiyin Motor Finance Service Co., Ltd.

By maintaining its market position as a bank "serving the local economy, serving small and medium enterprises ("SME(s)") and serving the general public", the Bank has continuously experienced a relatively fast growth in its business development, has gradually strengthened its comprehensive strength, has steadily improved its operational management standards, and has achieved a synergic development of scale, quality and efficiency, thus building up a good social image of the "local bank", the "people's bank" and the "SME bank", and becoming a regional commercial bank that is more well-known and has considerable influence in Anhui Province and even in the banking industry across China. With the full recognition and widespread praise from all sectors of society, the Bank was named one of the top 200 in the "Top 1000 World Banks" by The Banker, a UK magazine, with the ranking at No. 188, 3 places up from that in the last year.

Chapter I Corporate Information

1.3 AWARDS FOR 2016

In 2016, the Bank won numerous accolades and rewards in contests organized by domestic authorities and organizations:

- ◆ In January, the Bank was awarded the “Excellent Proprietary Institution Prize” and the “Outstanding Issuer” in China Bond Market Excellent Member Ranking for 2015 by the China Central Depository & Clearing Co., Ltd.
- ◆ In March, the Bank won the first prize in the Assessment of the Investigation and Statistics Work of Financial Institutions in Hefei, Anhui for 2015 organized by the Hefei Central Sub-branch of the PBOC.
- ◆ In March, the Bank was awarded the A Class by virtue of ranking first in Anti-money Laundering Regulation Ratings for 2015 of 156 Financial Institutions in Anhui Province issued by the Hefei Central Sub-branch of the PBOC.
- ◆ In March, the Bank was awarded the A-class Agency of the Underwriting Agencies of Saving Bonds in the “Notice on the Recognition of the Excellent Underwriting Agencies of Saving Bonds for 2015 in Anhui Province” issued by the Hefei Central Sub-branch of the PBOC.
- ◆ In March, the Bank ranked first in Assessment of the Operation and Maintenance for the Payment System by Direct Participants for 2015” organized by the Hefei Central Sub-branch of the PBOC.
- ◆ In April, the Bank was awarded the Highest “A” Class Institution in Evaluation of Implementing Relevant Provisions of the PBOC by the Banking Financial Institutions in Anhui Province for 2015 issued by the Hefei Central Sub-branch of the PBOC.
- ◆ In April, the Bank was awarded the title of “2015 Best Trading Partner Bank” in Evaluation of China Trade Finance Excellence Awards for 2015 organized by the China Banking Association.
- ◆ In April, the Bank was awarded the title of “2015 Advanced Entity of Innovation in Bank Card Payment Business” issued by the Committee of Innovation in Bank Card Payment in Anhui Province.
- ◆ In April, the Bank was awarded the title of the “2016 Best Commercial Investment Bank of China” in Evaluation of the Excellent Investment Bank of China for 2016 organized by “Securities Times”.
- ◆ In May, the Bank was granted the “Best Compliance Award for Wealth Management Institution of China Banking” in Wealth Management Product Issuers and Product Assessment of Commercial Bank for 2015 by the China Banking Association.

Chapter I Corporate Information

- ◆ In July, the customer service center of the Bank was certified to the ISO9001:2008 quality management system.
- ◆ In July, the Bank ranked fourth among the commercial banks in Evaluation of the Capability of Sound Development (GYROSCOPE) of Commercial Bank for 2016 organized by the China Banking Association.
- ◆ In July, the Bank was awarded the “2016 Best Bank in Service Innovation” of Golden Shell Awards for China Asset Management.
- ◆ In July, the Bank was granted the “2016 Best Innovation Award for China Financial Industry” by virtue of small business financial services platform mobile-side project at the IDC 2016 China Financial Industry Transformation and Innovation Summit Forum and Award Ceremony.
- ◆ In October, the Bank ranked first for the third consecutive quarter in Evaluation of the Underwriting Agencies of Saving Bonds by the Hefei Central Sub-branch of the PBOC.
- ◆ In October, the Bank ranked the “First Place in Banking” in the fourth “Resident Satisfaction Survey of Top 10 Service Industries in Anhui Province” issued by the Anhui Province Information Research Association and the Anhui Social Development Investigation and Research Center, and was awarded the title of “Resident’s Most Satisfactory Bank (居民最滿意銀行)”.
- ◆ In November, the Bank was awarded the title of “2016 City Commercial Bank for Internet Business Innovation” in the contest of 2016 Commercial Bank for Internet Business Innovation organized by the “21st Century Business Herald” under Nanfang Daily Media Group.
- ◆ In December, chairman of the Bank, Li Hongming was awarded the “2016 Outstanding Person for China Social Responsibility” at the 2016 Social Responsibility and Public Welfare Grand Ceremony and the Ninth Summit on Corporate Social Responsibility held in Beijing.
- ◆ In December, “Huangshan” credit card of the Bank was awarded the “Most Popular Credit Card in Anhui for the Year” in the Fourth Session of 2016 Comprehensive Evaluation of Financial Industry in Anhui.
- ◆ In December, the Bank was awarded the title of the “Most Potential Employer in China for 2016” in the China Best Employer Award ceremony for 2016 held in Sanya, Hainan.
- ◆ In December, CBRC Anhui office announced the supervision and assessment results on the cases prevention and control of banking financial institutions in Anhui Province in 2015, and the Bank was awarded the highest class of “green card” institution.

Chapter II Summary of Accounting Data and Business Data

2.1 MAIN FINANCIAL INFORMATION

Unit: RMB million, except for percentages

			Changes over the corresponding period of the last year
Operational results	2016	2015	+/(-)%
Net operating income ⁽¹⁾	20,918	16,977	23.21
Profit before tax	8,813	7,973	10.54
Net profit attributable to shareholders of the Bank	6,870	6,161	11.51

Unit: RMB, except for percentages

			Changes over the corresponding period of the last year
Per ordinary share	2016	2015	+/(-)%
Basic earnings attributable to shareholders of the Bank	0.62	0.56	10.71
Diluted earnings attributable to shareholders of the Bank	0.62	0.56	10.71
Closing net assets attributable to shareholders of the Bank	4.15	3.72	11.56

Unit: RMB million, except for percentages

			Changes over the end of the last year
Scale indicators	31 December 2016	31 December 2015	+/(-)%
Total assets	754,774	636,131	18.65
Including: Total loans and advances	277,371	243,434	13.94
Total liabilities	701,591	593,785	18.16
Including: Total customer deposits	462,014	359,225	28.61
Equity attributable to shareholders of the Bank	51,871	41,159	26.03

Note: (1) Net operating income comprises net interest income, net fee and commission income, net trading income, net income from financial investments, dividend income, as well as other operating income, net.

Chapter II Summary of Accounting Data and Business Data

2.2 FINANCIAL RATIOS

			<i>Unit: %</i>
			Changes over the corresponding period of the last year
	2016	2015	+ / (-)
Profitability indicators⁽¹⁾			
Return on average assets	1.01	1.11	(0.10)
Return on average equity	15.63	15.75	(0.12)
Net interest spread	2.42	2.52	(0.10)
Net interest margin	2.59	2.71	(0.12)

			<i>Unit: %</i>
			Changes over the corresponding period of the last year
	2016	2015	+ / (-)
Proportion of net operating income			
– Net interest income	87.68	87.43	0.25
– Net non-interest income ⁽²⁾	12.32	12.57	(0.25)
Cost-to-income ratio (including tax and surcharges) ⁽³⁾	27.55	32.02	(4.47)

			<i>Unit: %</i>
			Changes over the end of the last year
	31 December 2016	31 December 2015	+ / (-)
Asset quality indicators			
Non-performing loan ratio	1.07	0.98	0.09
Allowance to non-performing loan ratio	270.77	250.49	20.28
Allowance to loans ratio	2.90	2.47	0.43

			<i>Unit: %</i>
			Changes over the end of the last year
	31 December 2016	31 December 2015	+ / (-)
Capital adequacy indicators			
Core tier I capital adequacy ratio	8.79	9.80	(1.01)
Capital adequacy ratio	12.99	13.25	(0.26)
Total equity to total assets ⁽⁴⁾	7.05	6.66	0.39

Notes: (1) The ratios are annualized.

(2) Net non-interest income in this indicator comprises of net fees and commission income, net trading income, net income from financial investments, dividend income and other operating income, net, but excludes net income from investment in joint ventures and associates.

(3) Cost-to-income ratio = Operating expenses/Operating income.

(4) Equity includes minority interests.

Chapter II Summary of Accounting Data and Business Data

2.3 FIVE-YEAR FINANCIAL SUMMARY

	2016	2015	2014	2013	2012
Results for the year (RMB'000)					
Net operating income	20,918,409	16,977,100	12,748,053	10,172,509	9,234,965
Operating expenses	(5,763,036)	(5,435,251)	(4,216,671)	(3,386,435)	(3,132,268)
Asset impairment loss	(6,486,913)	(3,656,836)	(1,197,245)	(435,365)	(457,715)
Profit before tax	8,812,525	7,972,989	7,410,514	6,398,744	5,680,038
Net profit attributable to shareholders of the Bank	6,870,472	6,160,661	5,672,735	4,926,202	4,306,393
Per ordinary share (RMB)					
Dividends	0.061	0.159	0.159	0.156	0.10
Basic earnings	0.62	0.56	0.51	0.58	0.53
Diluted earnings	0.62	0.56	0.51	0.58	0.53
Closing net assets attributable to shareholders of the Bank	4.15	3.72	3.29	2.86	2.51
At year end (RMB'000)					
Paid-in capital stock	11,049,819	11,049,819	11,049,819	11,049,819	8,174,819
Total equity attributable to shareholders of the Bank	51,871,401	41,159,144	36,374,220	31,625,121	20,480,924
Total liabilities	701,590,676	593,785,360	446,211,390	350,437,158	303,743,433
Customer deposits	462,014,409	359,224,554	317,870,043	272,798,242	239,543,123
Total assets	754,773,994	636,130,621	482,764,314	382,109,090	324,224,357
Net loans and advances	269,336,141	237,428,103	214,734,236	191,280,398	159,941,475
Key financial ratios					
Return on average assets	1.01%	1.11%	1.31%	1.39%	1.48%
Return on average equity	15.63%	15.75%	16.64%	18.89%	22.93%
Cost-to-income ratio ⁽¹⁾	27.55%	32.02%	33.08%	33.29%	33.92%
Non-performing loan ratio	1.07%	0.98%	0.83%	0.54%	0.58%
Core tier 1 capital adequacy ratio	8.79%	9.80%	11.50%	12.60%	10.30%
Capital adequacy ratio	12.99%	13.25%	13.41%	15.19%	13.54%

Note: (1) Cost-to-income ratio = Operating expenses/Operating income.

Chapter III *Chairman's Statement*



Li Hongming | *Chairman*

Chapter III Chairman's Statement

In 2016, Huishang Bank positively adapted to and actively worked on the new normal, and carried forward the excellent Huishang culture. Firmly focusing on the main theme of transformation and upgrade, it exerted more efforts in strengthening the two major pillars of development driven by innovation and development guaranteed by management improvement, enhanced the service brands of "comprehensive finance, inclusive finance, intelligent finance and safe finance", and accelerated the implementation of the structural adjustment for comprehensiveness, professionalism, intelligence and diversity, which further demonstrated the role of the bank as a mainstream bank serving the local economy and social development in all aspects. As such, the Bank managed to realize continuous growth in economic performance and shareholders' value and record good operating results in a complex and severe economic environment.

As at the end of 2016, the Bank recorded total assets of RMB754.774 billion (in domestic and foreign currencies), representing an increase of 18.65% as compared to the beginning of the year; balance of deposits of RMB462.014 billion, representing an increase of 28.61% as compared to the beginning of the year; balance of loans (discount included) of RMB277.371 billion, representing an increase of 13.94% as compared to the beginning of the year; and net profit of RMB6.996 billion, representing a year-on-year increase of 12.62%, with various types of operation indicators maintaining at satisfactory levels. In addition, the Bank's non-performing loan ratio, provision coverage ratio for non-performing loans, provision ratio for loans and capital adequacy ratio were 1.07%, 270.77%, 2.90% and 12.99%, respectively, reflecting that our risk compensation capability was further strengthened. Our good operating results were attributable to the Bank's initiatives to push forward reforms and innovation and implement the development of transformation and upgrade and the progressive hard work of our employees at all levels throughout the past year, as well as the consistent care, trust and support from all levels of governmental departments, regulatory authorities, domestic and foreign investors, our customers and friends from all walks of life. On behalf of the Board of Huishang Bank, I extend my sincere thanks to them!

The year 2017 is a year of great significance for the implementation of the "13th Five-Year Plan" in China, a year in which the supply-side reform is to be deepened, as well as the first year for Huishang Bank to initiate the development of "New Finance". We will make active efforts to adapt to the new normal in economic development, carry out business adjustment and risk control in depth, and persist with transformation driven by innovation and quality and efficiency improvement supported by management enhancement. We will also continue to take "comprehensive finance, inclusive finance, intelligent finance and safe finance" as starting points, adapt to the new economy, develop new finance, cultivate new growth drivers and earn new advantages to continuously strengthen the core competitiveness of Huishang Bank and strive to repay shareholders and communities with better results.

Li Hongming
Chairman

Chapter IV President's Statement



Wu Xuemin | *President*

Chapter IV President's Statement

In 2016, under a complex and ever-changing economic and financial environment, and based on the work arrangement determined at the beginning of the year, the Bank persisted with “development driven by innovation and development guaranteed by management improvement”, and enhanced the four services brands of “comprehensive finance, inclusive finance, intelligent finance and safe finance”. The Bank also accelerated the optimization of asset structure, debt structure, customer diversity and income diversity to facilitate transformation and upgrade, and fully completed the annual operating plan and various tasks assigned by the Board of Directors. As a result of the above, our reputation and brand influence were further enhanced.

During the year, the Bank focused its efforts in increasing effective investment to serve the local economy. The Bank took comprehensive finance as the starting point to serve the supply-side structural reform with the main tasks of cutting overcapacity, destocking and deleveraging, reducing costs and identifying growth areas, continuously increased effective investment to capture underlying assets of high quality, and served the economic and social development of local communities in an aggressive and effective manner. Besides, the Bank helped enterprises to revitalize stock assets and lower leverage ratio by means of issuing perpetual bonds and corporate bonds, etc., which provided a strong support for the local economic and social development and the supply-side structural reform. The Bank focused its efforts on the development of the investment banking business in order to respond to the changes in the manners in which corporate funds were utilized, and issued 14 debt financing instruments with a total amount of RMB11.6 billion, with the interest rates of certain corporate bonds issued hitting the historic low for those with the same rating and term, which effectively reduced corporate financing costs and produced brand effect in Anhui province.

During the year, the Bank focused on the development driven by innovation, and strived to facilitate development through transformation and upgrade. Huishang Bank persisted with development driven by innovation, and exerted efforts in building financial service brands centered on comprehensive finance, inclusive finance and intelligent finance. The Bank took the initiative to open up new prospects with new ideas, new methods and new modes, and further enhanced the drivers for development, with innovation being the brightest highlight in the process of transformation and upgrade. Moreover, the Bank innovatively launched various businesses and products such as PPP Quanchengtong (全程通), adjustment-to-promotion funds, assets management schemes for accounts receivable, perpetual bonds, M&A loans and REITs. The Bank advanced the professional reform of small enterprises, and increased investment in “4321” loans, Easy-Revolving-Loan (易連貸) and Shui Rong Tong (稅融通), thus realizing “in excess of three indicators”. The Bank put continuous efforts in promoting traditional businesses to be offered online, built and launched a mobile financial service platform for individual customers, and integrated in one card the functions of three cards, namely credit card, debit card and wealth card (有財卡). Thanks to innovation, the transformation and upgrade of the Bank was effectively facilitated; the brand of the Bank featuring comprehensive finance, inclusive finance, intelligent finance and safe finance was established preliminarily and a significant progress was made for structural adjustment, with a stable growth in intermediary business income and its percentage. Continuously increased contributions of emerging businesses, including investment banking, custody and asset management, to intermediary business income were recorded.

Chapter IV *President's Statement*

During the year, the Bank focused on management improvement and enhancement of various management work. The Bank reinforced risk control, strived to mitigate its risk exposures through tackling the problem and its cause, and sought to solve serious problems on the basis of the current situation and build its risk management system from the long-term perspective. The Bank strived to improve its risk management capability and standard by emphasizing accountability, and managed to defend its bottom risk line. In addition, the Bank continuously enhanced various management work, and followed the principle of strictness, meticulousness and truthfulness to focus on key areas and links and enhance the meticulousness and standardization of the management work, thus providing a strong support for the development through transformation and upgrade. The Bank optimized the strategic planning management and established the strategic planning management system preliminarily. The Bank also optimized the assets management system centered on assets constraints, and optimized assets allocation via risk-adjusted rate of return. Moreover, the Bank carried out its five-year development plan for information construction oriented to data, synergy, mobility and intelligence, furthered the construction of the new production data center, and completed the upgrade of the systems in PA hosts. The Bank initiated the "826 Program" to conduct an IT-based double-mode management reform, promoted professional approval, explored the reform on the approval mode, and developed such approval modes as "investment-loan linkage" innovatively.

The year 2017 is a year of great significance for the implementation of the "13th Five-Year Plan", a year in which the supply-side reform is to be deepened, as well as the "Year for Developing New Finance" of Huishang Bank. Huishang Bank will earnestly adhere to the spirit of the Central Government, the economic conferences of Anhui Province and the conferences on the regulation of the banking industry, and continue the implementation of the five-year strategic development planning under the correct leadership of the provincial committee of the CPC and the provincial government and the meticulous guidance of the regulatory authorities, to promote transformation through innovation and improve quality and efficiency through management improvement. Taking "comprehensive finance, inclusive finance, intelligent finance and safe finance" as the starting points, the Bank will actively adapt to the new economy, strive to develop new finance, spare no effort to cultivate new growth drivers and accelerate to earn new advantages, in order to continuously strengthen the core competitiveness of Huishang Bank, fully complete the annual operating plan and various tasks assigned by the Board of Directors, and endeavor to build ourselves into "a mainstream bank serving the economic and social development of local communities".

Wu Xuemin
President

Chapter V Management Discussion and Analysis

5.1 OVERALL BUSINESS REVIEW

In the face of the complex external situations and increasingly fierce peer competition in 2016, the Bank made efforts to overcome various adverse factors by focusing on quality and efficiency and shifting its priorities towards transformational development and structural adjustment. All these led to a steady expansion of our business scale and improved profitability, realizing steady growth in various business segments and continuous improvement in operating and management level, which were mainly reflected as follows:

The scale of assets and liabilities increased moderately. As of the end of 2016, the total assets of the Bank were RMB754,774 million, representing an increase of RMB118,643 million or 18.65% as compared with the end of last year. Total loans and advances were RMB277,371 million, representing an increase of RMB33,937 million or 13.94% as compared with the end of last year. Total customer deposits were RMB462,014 million, representing an increase of RMB102,789 million or 28.61% as compared with the end of last year.

Non-performing assets increased and provision coverage maintained at a stable level. As of the end of 2016, the Bank's non-performing loan balance was RMB2,967 million, representing an increase of RMB569 million as compared with the end of last year. Non-performing loan ratio was 1.07%, representing an increase of 0.09 percentage point as compared with the end of last year. Non-performing loan provision coverage ratio was 270.77%, representing an increase of 20.28 percentage points as compared with the end of last year.

5.2 ANALYSIS OF INCOME STATEMENT

5.2.1 Particulars of financial performance

	<i>Unit: RMB million</i>	
	2016	2015
Net interest income	18,340	14,843
Net fee and commission income	2,491	1,771
Other net income	87	363
Operating expenses	5,763	5,435
Share of profits in associates	144	88
Impairment losses on assets	6,487	3,657
Profit before income tax	8,813	7,973
Income tax	1,816	1,761
Net profit	6,996	6,212
Net profit attributable to shareholders of the Bank	6,870	6,161

In 2016, the Bank recorded a net profit of RMB6,996 million, representing an increase of 12.62% as compared with last year. The effective income tax rate was 20.61%, representing a decrease of 1.48 percentage points as compared with last year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.2 Net operating income

In 2016, the Bank had a net operating income of RMB21,062 million (including income from investment in associates and joint ventures), representing an increase of 23.42% as compared with last year, among which, net interest income accounted for 87.08%, representing an increase of 0.10 percentage point as compared with last year; net non-interest income accounted for 12.92%, representing a decrease of 0.10 percentage point as compared with last year.

The following table sets forth the year-on-year comparison of the net operating income for the recent three years.

	2016 (%)	2015 (%)	2014 (%)
Net interest income	87.08	86.98	89.07
Net fee and commission income	11.83	10.38	6.67
Other net income	0.41	2.12	3.66
Income from investment in associates and joint ventures	0.68	0.52	0.60
Total	100.00	100.00	100.00

Note: Such analysis of net operating income in the table comprises income from investment in associates and joint ventures.

5.2.3 Net interest income

In 2016, the Bank's net interest income amounted to RMB18,340 million, representing an increase of 23.56% from last year. Such increase was mainly due to an expansion of the scale of interest-earning assets.

The following table sets forth the average balances of assets and liabilities, interest income/expenses and annualized average yield/cost of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

Unit: RMB million, except for percentages

	2016			2015		
	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)
Interest-earning assets						
Loans and advances	261,084	13,704	5.25	236,257	15,667	6.63
Financial investments	309,294	15,479	5.00	158,329	8,493	5.36
Balances with central bank	69,685	1,078	1.55	59,107	922	1.56
Deposits and placements with banks and other financial institutions	52,375	1,670	3.19	90,311	3,689	4.08
Finance lease receivables	14,810	771	5.21	3,084	170	5.51
Total interest-earning assets and interest income	707,248	32,702	4.63	547,088	28,941	5.29

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.3 Net interest income (Continued)

Unit: RMB million, except for percentages

Item	2016			2015		
	Average Balance	Interest Expenses	Average Cost Ratio (%)	Average Balance	Interest Expenses	Average Cost Ratio (%)
Interest-bearing liabilities						
Borrowings from central bank	3	-	1.70 ⁽¹⁾	83	2	2.41
Customer deposits	420,170	6,688	1.59	317,348	6,466	2.04
Deposits and placements with banks and other financial institutions	138,678	4,375	3.15	145,814	5,508	3.78
Debt securities issued	92,192	3,299	3.58	45,640	2,122	4.65
Total interest-bearing liabilities and interest expenses	651,043	14,362	2.21	508,885	14,098	2.77
Net interest income	/	18,340	/	/	14,843	/
Net interest spread	/	/	2.42	/	/	2.52
Net interest margin	/	/	2.59	/	/	2.71

Note: (1) Interest expenses of borrowings from central bank were small and corresponding cost ratio was calculated in thousands.

In 2016, the net interest spread of the Bank was 2.42%, while the net interest margin was 2.59%. The annualized average yield of interest-earning assets was 4.63%, while the annualized average cost ratio of interest-bearing liabilities was 2.21%.

The following table sets forth the distribution of changes in interest income and interest expenses caused by the changes in scale and interest for the period indicated. The changes in scale were measured by the changes of average balances (average daily balances); while the changes in interests were measured by changes in average interest rates. The scale changes and interest rate changes caused changes in interest income and expenses, which was included in the impact of interest changes in interest income and expense changes.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.3 Net interest income (Continued)

Unit: RMB million

	2016 vs. 2015		Net increase/ (decrease) ⁽³⁾
	Increase/(decrease) factors Scale ⁽¹⁾	Interest rate ⁽²⁾	
Assets			
Loans and advances	1,646	(3,609)	(1,963)
Financial investments	8,092	(1,106)	6,986
Balances with central bank	165	(9)	156
Deposits and placements with banks and other financial institutions	(1,548)	(471)	(2,019)
Finance lease receivables	646	(45)	601
Changes in interest income	9,001	(5,240)	3,761
Liabilities			
Borrowings from central bank	(2)	–	(2)
Customer deposits	2,098	(1,876)	222
Deposits and placements from banks and other financial institutions	(270)	(863)	(1,133)
Debt securities issued	2,165	(988)	1,177
Changes in interest expenses	3,991	(3,727)	264
Changes in net interest income	5,010	(1,513)	3,497

Notes:

- (1) Represents average balance for the year minus average balance for the prior year, and then multiply by average return rate/cost for the prior year.
- (2) Represents average return rate/cost for the year minus average return rate/cost for the prior year, and then multiply by average balance for the year.
- (3) Represents interest income/expense for the year minus interest income/expense for the prior year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.4 Interest income

In 2016, the Bank's interest income amounted to RMB32,702 million, representing an increase of 13.00% from last year. Such increase was mainly due to the expansion of the scale of interest-earning assets.

Interest income from loans

In 2016, the Bank's interest income from loans and advances amounted to RMB13,704 million, representing a decrease of RMB1,963 million or 12.53% as compared with last year.

The following table sets forth the average balances, interest income and annualized average yields on each component of the Bank's loans and advances for the periods indicated.

Unit: RMB million, except for percentages

	2016			2015		
	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)
Corporate loans	162,897	9,818	6.03	161,573	11,216	6.94
Retail loans	73,193	3,318	4.53	60,792	3,685	6.06
Discounted bills	24,994	568	2.27	13,892	766	5.51
Loans and advances	261,084	13,704	5.25	236,257	15,667	6.63

Other interest income

In 2016, the Bank's interest income from investments in securities amounted to RMB15,479 million, representing an increase of RMB6,986 million or 82.26% as compared with last year. Interest income from balances with central bank amounted to RMB1,078 million, representing an increase of RMB156 million or 16.92% as compared with last year. Interest income from deposits and placements with banks and other financial institutions amounted to RMB1,670 million, representing a decrease of RMB2,019 million or 54.73% as compared with last year. Interest income from financial leasing amounted to RMB771 million, representing an increase of RMB601 million or 353.53% as compared with last year.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.5 Interest expenses

In 2016, the Bank's interest expenses amounted to RMB14,362 million, representing an increase of RMB264 million or 1.87% as compared with last year. Such increase was primarily due to the structure change and an expansion of the scale of interest-bearing liabilities.

Interest expense on customer deposits

In 2016, the Bank's interest expense on customer deposits recorded RMB6,688 million, representing an increase of RMB222 million or 3.43% as compared with last year. Such increase was mainly due to the year-on-year increase of 32.40% in the average balance on customer deposits.

The following table sets forth the average balance, interest expenses and annualized average cost ratio of the Bank's corporate deposits and retail deposits for the periods indicated.

Unit: RMB million, except for percentages

	2016			2015		
	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)
Corporate deposits						
Demand deposits	179,291	1,121	0.63	125,959	972	0.77
Time deposits	120,300	3,611	3.00	86,845	3,297	3.80
Sub-total	299,591	4,732	1.58	212,804	4,269	2.01
Retail deposits						
Demand deposits	40,993	165	0.40	29,143	117	0.40
Time deposits	52,382	1,430	2.73	42,324	1,388	3.28
Sub-total	93,375	1,595	1.71	71,467	1,505	2.11
Others	27,204	361	1.33	33,077	692	2.09
Total customer deposits	420,170	6,688	1.59	317,348	6,466	2.04

Other interest expenses

In 2016, interest expense on deposits from banks and other financial institutions amounted to RMB4,375 million, representing a decrease of RMB1,133 million or 20.57%. Interest expenses on issuance of bonds amounted to RMB3,299 million, representing an increase of RMB1,177 million or 55.47%.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.6 Net non-interest income

In 2016, the Bank realized a net non-interest income of RMB2,722 million, an increase of RMB500 million or 22.50% as compared with last year.

The following table sets forth the principal components of the Bank's net non-interest income for the periods indicated.

	<i>Unit: RMB million</i>	
	2016	2015
Fee and commission income	2,631	1,872
Less: Fee and commission expenses	(140)	(101)
Net fee and commission income	2,491	1,771
Other net non-interest income⁽¹⁾	231	451
Total net non-interest income	2,722	2,222

Note: (1) Comprises net trading income, net income from financial investments, other operating income, net, net income from investment in associates and dividend income.

5.2.7 Net fee and commission income

In 2016, the Bank's net fee and commission income was RMB2,491 million, representing an increase of RMB720 million or 40.65% as compared with last year. Such increase was primarily attributable to an increase in agency services commissions, custodian and other fiduciary service fees and bank card fees.

The following table sets forth the principal components of the Bank's net fee and commission income for the periods indicated.

	<i>Unit: RMB million</i>	
	2016	2015
Fee and commission income	2,631	1,872
Bank card service	514	293
Settlement and clearing service	109	96
Agency service	174	47
Consultancy and advisory service	179	162
Guarantee and commitment service	19	49
Custodian and other fiduciary service	1,410	1,018
Others ⁽¹⁾	226	207
Fee and commission expenses	(140)	(101)
Net fee and commission income	2,491	1,771

Note: (1) Mainly includes syndicated loan fees, domestic factoring fees and arrangement fees for international trade financing.

Chapter V Management Discussion and Analysis

5.2 ANALYSIS OF INCOME STATEMENT (Continued)

5.2.8 Other non-interest net income

In 2016, the Bank's other net non-interest income was RMB231 million, representing a decrease of RMB220 million or 48.78% compared with last year. Such decrease was mainly due to a decrease in net income from financial investments and other operating income, net.

The following table sets forth the principal components of the Bank's other net non-interest income for the periods indicated.

	<i>Unit: RMB million</i>	
	2016	2015
Net income from financial investments	(67)	211
Net trading income	75	55
Net income from investment in associates	144	88
Other operating income, net	76	97
Dividend income	3	0.44
Total other net income	231	451

5.2.9 Operating expenses

In 2016, the Bank's operating expenses were RMB5,763 million, representing an increase of 6.03% as compared with last year. Such increase was primarily attributable to an increase in staff costs, depreciation and amortization and lease expenses to different extents because of the factors such as business expansion and staff increase.

The following table sets forth the principal components of the Bank's operating expenses for the periods indicated.

	<i>Unit: RMB million</i>	
	2016	2015
Staff costs	2,804	2,209
Tax and surcharges	650	1,357
Depreciations and amortization	373	321
Lease expenses	282	223
Other general and administrative expenses	1,654	1,325
Total operating expenses	5,763	5,435

5.2.10 Asset impairment losses

In 2016, the Bank's allowance to asset impairment losses recorded RMB6,487 million, representing an increase of 77.39% as compared with last year.

	<i>Unit: RMB million</i>	
	2016	2015
Loans and advances to customers		
– collectively-assessed	2,611	1,769
– individually-assessed	2,156	917
Available-for-sale financial assets	430	244
Debt instruments classified as loans and receivables	980	632
Finance lease receivables	221	95
Others	89	–

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS

5.3.1 Assets

As of 31 December 2016, the Bank's total assets amounted to RMB754,774 million, representing an increase of 18.65% as compared with the end of 2015. The increase in total assets was primarily due to an increase in loans and advances as well as investments.

Unit: RMB million, except for percentages

Items	31 December 2016		31 December 2015	
	Amount	% of the total	Amount	% of the total
Total loans and advances	277,371	36.75%	243,434	38.26%
Provision for loan impairment	(8,035)	(1.06%)	(6,006)	(0.94%)
Net loans and advances	269,336	35.69%	237,428	37.32%
Derivative financial assets ⁽¹⁾	386	0.05%	4	0.00%
Investments ⁽²⁾	338,149	44.79%	230,393	36.22%
Cash	1,353	0.18%	1,179	0.19%
Balances with the central bank	86,706	11.49%	77,235	12.14%
Deposits with banks and other financial institutions	10,961	1.45%	10,283	1.62%
Inter-bank loans and financial assets held under resale agreements	19,836	2.63%	63,910	10.05%
Investments in associates ⁽³⁾	539	0.07%	414	0.07%
Fixed assets	1,719	0.23%	1,617	0.25%
Deferred income tax assets	2,309	0.31%	1,274	0.20%
Finance lease receivables	18,199	2.41%	7,502	1.18%
Other assets ⁽⁴⁾	5,281	0.70%	4,892	0.76%
Total assets	754,774	100.00%	636,131	100.00%

Notes: (1) The derivative financial assets as at the end of 2015 were originally included in the investments as at the end of 2015, and currently listed separately.

(2) Derivative financial assets of RMB4 million were removed from and listed separately from the investments as at the end of 2015.

(3) The investments in associates as at the end of 2015 were originally included in the other assets as at the end of 2015, and currently listed separately.

(4) Investments in associates of RMB414 million were listed separately and removed from the other assets as at the end of 2015.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.1 Loans and advances

As of 31 December 2016, the Bank's total loans and advances amounted to RMB277,371 million, representing an increase of 13.94% as compared with the end of last year, and the total loans and advances accounted for 36.75% of the Bank's total assets, down by 1.51% from the end of last year.

Distribution of loans by product type

The following table sets forth information on the Bank's loans and advances by product type as of the dates indicated.

Unit: RMB million, except for percentages

Items	31 December 2016		31 December 2015	
	Amount	% of the total	Amount	% of the total
Corporate loans	179,202	64.61%	157,430	64.67%
Discounted bills	16,761	6.04%	21,610	8.88%
Retail loans	81,408	29.35%	64,394	26.45%
Total loans and advances	277,371	100.00%	243,434	100.00%

Corporate loans

As of 31 December 2016, the Bank's total corporate loans recorded RMB179,202 million, representing an increase of 13.83% as compared with the end of last year, and accounted for 64.61% of the total loans and advances of the Bank, decreasing by 0.06% from the end of last year. In 2016, in view of the macroeconomic environment and regulatory requirements, the Bank reasonably adjusted and controlled its total loan amount, adjusted its loan structure deeply, and systemically prevented various risks, which achieved simultaneous optimization of loan structure and risk return.

Discounted bills

As of 31 December 2016, the Bank's total discounted bills amounted to RMB16,761 million, representing a decrease of 22.44% as compared with the end of last year. In 2016, according to regulatory requirements and changes in bill market, the Bank reasonably developed its discounted bill business to improve the comprehensive return thereof, after thoughtfully considering credit size, market yield, liquidity management and various risks.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.1 Loans and advances (Continued)

Retail loans

As of 31 December 2016, the Bank's total retail loans amounted to RMB81,408 million, representing an increase of 26.42% as compared with the end of last year, and accounted for 29.35% of the total loans and advances, representing an increase of 2.90% from the end of last year.

Unit: RMB million, except for percentages

Items	31 December 2016		31 December 2015	
	Amount	% of the total	Amount	% of the total
Personal residential mortgage loans	60,672	74.53%	44,627	69.30%
Personal business revolving loans	8,690	10.67%	10,316	16.02%
Others	12,046	14.80%	9,451	14.68%
Total retail loans	81,408	100.00%	64,394	100.00%

5.3.1.2 Investments

Investments of the Bank consist of listed and non-listed securities denominated in both Renminbi and foreign currencies, including financial assets held for trading, available-for-sale financial assets, held-to-maturity financial assets and debt instruments classified as loans and receivables.

The following table sets forth the components of the investment portfolio of the Bank according to the accounting classification.

Unit: RMB million, except for percentages

Items	31 December 2016		31 December 2015	
	Amount	% of the total	Amount	% of the total
Financial assets held for trading	5,742	1.70%	2,730	1.18%
Available-for-sale financial assets	120,384	35.60%	96,272	41.79%
Held-to-maturity financial assets	52,352	15.48%	42,257	18.34%
Debt instruments classified as loans and receivables	159,671	47.22%	89,134	38.69%
Financial Investments ⁽¹⁾	338,149	100.00%	230,393	100.00%

Note: (1) Derivative financial assets of RMB4 million were removed from the investments, of which the discrepancy between the balance of investments at the end of 2015 and balance of investments in 2015 Annual Report was a result of the aforesaid adjustment.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.2 Investments (Continued)

Financial assets at fair value through profit or loss

The following table sets forth the components of financial assets at fair value through profit or loss of the Bank.

	<i>Unit: RMB million</i>	
	31 December	31 December
	2016	2015
Government bonds	151	207
Financial bonds	3,678	2,168
Corporate bonds	1,913	355
Total financial assets at fair value through profit or loss	5,742	2,730

Available-for-sale investments

As of 31 December 2016, the Bank's available-for-sale investments increased by RMB24,112 million over the end of 2015, with an increase of 25.05%, which was mainly due to a significant increase in interbank certificates of deposit and wealth management products.

The following table sets forth the components of available-for-sale investments of the Bank.

	<i>Unit: RMB million</i>	
	31 December	31 December
	2016	2015
Government bonds	16,896	9,108
Financial bonds	11,302	10,137
Corporate bonds	4,350	4,675
Direct asset management schemes by securities firms	60,614	68,075
Interbank certificates of deposit	14,605	229
Equity securities	10	10
Purchase non-principle wealth management products		
from other banks	13,500	4,500
Less: provision for impairment	893	462
Available-for-sale investments, net	120,384	96,272

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.2 Investments (Continued)

Held-to-maturity investments

As of 31 December 2016, net held-to-maturity investments held by the Bank increased by RMB10,095 million from the end of last year, with an increase of 23.89%. Held-to-maturity investments will be held in the long run for our investment strategy. In 2016, based on the requirements of our bank account interest rate risk management, the Bank increased the proportion of government bonds, and improved the earning level of investment portfolio.

	<i>Unit: RMB million</i>	
	31 December 2016	31 December 2015
Government bonds	39,199	28,020
Financial bonds	9,044	10,039
Corporate bonds	4,109	4,198
Total held-to-maturity investments	52,352	42,257

Loans and investments classified as receivables

Loans and investments classified as receivables are primarily the targeted asset management schemes of brokers as invested by the Bank, and wealth management products issued by other commercial banks. There is no open market for these investments. As of 31 December 2016, net investments classified as receivables held by the Bank amounted to RMB159,671 million, an increase of RMB70,537 million from the end of 2015, mainly due to a substantial increase in capital trust scheme and asset management scheme.

	<i>Unit: RMB million</i>	
	31 December 2016	31 December 2015
Government bonds	106	120
Direct asset management schemes by securities firms	155,177	83,846
Investment in wealth management products of other banks	6,000	5,800
Less: provision for impairment	1,612	632
Total investments classified as receivables	159,671	89,134

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.2 Investments (Continued)

Carrying value and market value

All financial assets classified as financial assets at fair value through profit or loss or bond investments in available-for-sale investments are recorded at market value or fair value.

The following table sets forth the carrying value and market value of the held-to-maturity investments and debt instruments classified as loans and receivables in the Bank's investment portfolio as of the dates indicated.

Unit: RMB million

	31 December 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
Held-to-maturity investments	52,352	52,695	42,257	43,456
Debt instruments classified as loans and receivables	159,671	159,656	89,134	89,126

5.3.1.3 Subsidiaries and major companies in which the Bank has shareholdings

Name	Initial Investment amount (RMB'000)	Percentage of shareholding (%)	Number of shares held at the end of the period (in thousands of shares)	Carrying value at the end of the period (RMB'000)	Sources of shares held	Remark
Jinzhai Huiyin Rural Bank Co., Ltd. ⁽¹⁾	32,800	41	32,800	32,800	Promotion	Subsidiary
Wuwei Huiyin Rural Bank Co., Ltd. ⁽²⁾	40,000	40	40,000	69,513	Promotion	Subsidiary
Huiyin Financial Leasing Co., Ltd.	1,020,000	51	1,020,000	1,020,000	Promotion	Subsidiary
Chery HuiYin Motor Finance Service Co., Ltd.	100,000	20	200,000	538,646	Promotion	Company in which the Bank has shareholding

Notes:

- (1) On 15 June 2013, the Bank entered into the Acting-in-concert Declaration with Anhui Jin'an Stainless Steel Casting Co. Ltd. (holding 10% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.), Anhui Heyi Food Co. Ltd. (holding 9% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.) and Guan Houlong (holding 10% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.), respectively, pursuant to which, such shareholders will act in concert with the Bank in voting when dealing with material decisions regarding financial and operating policies of Jinzhai Huiyin Rural Bank Co., Ltd. As such, the Bank has de facto control over Jinzhai Huiyin Rural Bank Co., Ltd., and, in turn, Jinzhai Huiyin Rural Bank Co., Ltd. is a subsidiary in which the Bank has a controlling interest.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.1 Assets (Continued)

5.3.1.3 Subsidiaries and major companies in which the Bank has shareholdings (Continued)

Notes: (Continued)

- (2) In 2010, the Bank invested in and established Wuwei Huiyin Rural Bank Co., Ltd. Its registered capital was RMB100 million, of which the Bank contributed RMB40 million, accounting for 40% shareholding. Upon the approval from the CBRC, Wuwei Huiyin Rural Bank Co., Ltd. officially opened for business on 8 August 2010. Although the Bank has no absolute controlling interest in Wuwei Huiyin Rural Bank Co., Ltd., after taking into full account of various factors, the company's operating activities since its incorporation indicated that the Bank has a dominant position over operating activities of Wuwei Huiyin Rural Bank Co., Ltd. Therefore, the Bank has de facto control over it. The Bank included Wuwei Huiyin Rural Bank Co., Ltd. in its consolidated financial statements on 31 December 2014.

For further details of subsidiaries and major companies in which the Bank has shareholdings, please refer to section 5.9.5 of this annual report.

5.3.2 Liabilities

As of 31 December 2016, total liabilities of the Bank amounted to RMB701,591 million, representing an increase of 18.16% as compared with the end of last year. Such increase was mainly due to the growth of customer deposits, placements from banks and other financial institutions and issuance of bonds.

Unit: RMB million, except for percentages

Items	31 December 2016		31 December 2015	
	Amount	% of the total	Amount	% of the total
Borrowings from central bank	5	0.00%	0	0.00%
Deposits from banks and other financial institutions	83,217	11.86%	89,286	15.04%
Placements from banks and other financial institutions	15,352	2.19%	7,911	1.33%
Derivative financial liabilities	5	0.00%	20	0.00%
Financial assets sold under repurchase agreements	32,619	4.65%	45,432	7.65%
Customer deposits	462,014	65.85%	359,225	60.50%
Taxes payable	1,559	0.22%	1,467	0.25%
Issuance of bonds	91,505	13.05%	79,426	13.38%
Other liabilities	15,315	2.18%	11,018	1.86%
Total liabilities	701,591	100.00%	593,785	100.00%

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.2 Liabilities (Continued)

Customer deposits

The Bank has been focusing on and actively expanding its deposit business. In 2016, despite an increasingly intense competition among the peers, the Bank managed to maintain a steady growth of customer deposits through various effective measures. As of 31 December 2016, total customer deposits of the Bank amounted to RMB462,014 million, representing an increase of RMB102,789 million from the end of 2015, and accounted for 65.85% of the total liabilities of the Bank.

The following table sets forth the Bank's customer deposits by product type and customer type as of the dates indicated.

Unit: RMB million, except for percentages

Items	31 December 2016		31 December 2015	
	Amount	% of the total	Amount	% of the total
Corporate deposits				
Demand deposits	191,067	41.35%	139,970	38.97%
Time deposits	141,820	30.70%	103,213	28.73%
Subtotal	332,887	72.05%	243,183	67.70%
Retail deposits				
Demand deposits	43,420	9.40%	33,410	9.30%
Time deposits	62,112	13.44%	53,360	14.85%
Subtotal	105,532	22.84%	86,770	24.15%
Other deposits	23,595	5.11%	29,272	8.15%
Include: Pledged deposits	23,117	5.00%	28,752	8.00%
Total customer deposits	462,014	100.00%	359,225	100.00%

As of 31 December 2016, retail deposits of the Bank accounted for 22.84% of total customer deposits, representing a decrease of 1.31% from the end of 2015.

Time deposits from customers of the Bank have increased by 0.56% from the end of last year since 2016. As of 31 December 2016, the Bank's demand deposits to total customer deposits ratio was 50.75%, an increase of 2.48% from the end of 2015. Among them, the proportion of demand deposits in corporate deposits was 41.35%, showing an increase of 2.38% over the end of 2015; while the proportion of demand deposits in retail deposits was 9.40%, showing an increase of 0.10% over the end of 2015.

Chapter V Management Discussion and Analysis

5.3 BALANCE SHEET ANALYSIS (Continued)

5.3.3 Equity

Items	Unit: RMB million	
	31 December 2016	31 December 2015
Share capital	11,050	11,050
Other equity instruments	5,990	–
Capital reserve	6,751	6,751
Surplus reserve	6,536	5,250
Statutory general reserve	6,208	4,716
Investment revaluation reserve	(121)	271
Retained earnings	15,457	13,121
Total equity attributable to shareholders of the Bank	51,871	41,159
Non-controlling interest	1,312	1,186
Total equity	53,183	42,345

5.4 LOAN QUALITY ANALYSIS

5.4.1 Distribution of loans by the five-category classification

The following table sets forth the distribution of the Bank's loans by the five-category classification as of the dates indicated.

	31 December 2016		31 December 2015	
	Amount	% of the total	Amount	% of the total
	<i>(in RMB100 million, except for percentages)</i>			
Pass	2,689.66	96.97	2,340.10	96.13
Special mention	54.38	1.96	70.26	2.89
Substandard	21.34	0.77	15.14	0.62
Doubtful	6.02	0.22	7.31	0.30
Loss	2.31	0.08	1.53	0.06
Gross loans and advances to customers	2,773.71	100.00	2,434.34	100.00
Total non-performing loans	29.67	1.07	23.98	0.98

Under the five-category classification system of the loan supervision, the non-performing loans ("NPLs") of the Bank include loans of substandard, doubtful and loss categories. Affected by changes of the external business environment, the Bank's asset quality faced serious challenges in 2016. By focusing on risk prevention and accelerating disposal treatment, the Bank maintained stable quality of assets. As of the end of the reporting period, the NPL ratio of the Bank was 1.07%, representing an increase of 0.09% as compared to the end of last year.

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.2 Distribution of loans and NPLs by product type

The following table sets forth the distribution of loans and NPLs by product type as of the dates indicated.

	31 December 2016				31 December 2015			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
	<i>(in RMB100 million, except for percentages)</i>							
Corporate loans	1,792.02	64.61	22.70	1.27	1,574.30	64.67	18.65	1.18
Discounted bills ⁽¹⁾	167.61	6.04	-	-	216.10	8.88	-	-
Retail loans	814.08	29.35	6.97	0.86	643.94	26.45	5.33	0.83
Total loans and advances to customers	2,773.71	100.00	29.67	1.07	2,434.34	100.00	23.98	0.98

Note: (1) Overdue discounted bills are transferred to corporate loans.

5.4.3 Distribution of loans and NPLs by industry

The following table sets forth the distribution of loans and NPLs by industry as of the dates indicated.

	31 December 2016				31 December 2015			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
	<i>(in RMB100 million, except for percentages)</i>							
Commerce and services	581.33	20.96	8.90	1.53	521.03	21.41	7.68	1.47
Manufacturing	409.94	14.78	8.05	1.96	374.20	15.37	7.77	2.08
Public utilities	365.11	13.16	-	-	268.79	11.04	-	-
Real estate	111.00	4.00	2.54	2.29	134.00	5.50	1.70	1.27
Construction	127.66	4.60	0.47	0.37	128.99	5.30	0.77	0.60
Transportation	39.50	1.42	0.51	1.29	54.33	2.23	0.37	0.68
Energy and chemical	59.03	2.13	0.44	0.75	32.60	1.34	0.09	0.28
Catering and travelling	18.74	0.68	1.52	8.11	19.76	0.81	0.03	0.15
Education and media	18.80	0.68	0.08	0.43	17.07	0.70	-	-
Financial services	44.57	1.61	-	-	2.10	0.09	-	-
Others ⁽¹⁾	16.34	0.59	0.19	1.16	21.43	0.88	0.23	1.07
Discounted bills	167.61	6.04	-	-	216.10	8.88	-	-
Retail loans	814.08	29.35	6.97	0.86	643.94	26.45	5.34	0.83
Total loans and advances to customers	2,773.71	100.00	29.67	1.07	2,434.34	100.00	23.98	0.98

Note: (1) Others mainly include the planting, forestry, and livestock industry and the fishery industry.

In 2016, our overall credit strategy was to “practice green concept of credit business, optimize the allocation of credit resources, actively support the development of the real economy, strengthen risk controls of key areas and key industries, and adhere to the bottom risk line”. The Bank guided credit resources to better serve the real economy and actively allocated credit resources to “small and micro” enterprises as well as developed green credit. The Bank also implemented credit limit management over local government financing platforms, real estate and overcapacity industries, and implemented industry risk prevention and control on the “Non-green Industries” such as steel, coal and shipbuilding and relevant steel and coal trading industries. During the reporting period, the increments of non-performing corporate loans of the Bank were mainly from three sectors, namely manufacturing, real estate, and commercial and service sectors.

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5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.4 Distribution of loans and NPLs by geographical segment

The following table sets forth the distribution of loans and NPLs by geographical segment as of the dates indicated.

	31 December 2016				31 December 2015			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio (%)
	<i>(in RMB100 million, except for percentages)</i>							
Anhui	2,540.96	91.61	25.54	1.01	2,221.71	91.27	21.63	0.97
Jiangsu	232.75	8.39	4.13	1.77	212.63	8.73	2.35	1.11
Total loans and advances to customers	2,773.71	100.00	29.67	1.07	2,434.34	100.00	23.98	0.98

The Bank has expanded its business into Nanjing, Jiangsu Province since the beginning of 2009. As at the end of 2016, total loans of Jiangsu Province accounted for 8.39% of the total loans and advances to customers, while NPLs of Jiangsu Province accounted for 13.92% of the Bank's total NPLs.

5.4.5 Distribution of loans and NPLs by type of collateral

The following table sets forth the distribution of loans and NPLs by type of collateral as of the dates indicated.

	31 December 2016				31 December 2015			
	Amount of loans	% of the total	NPLs	NPL ratio (%)	Amount of loans	% of the total	NPLs	NPL ratio(%)
	<i>(in RMB100 million, except for percentages)</i>							
Collateralized loans	1,386.88	50.01	19.52	1.41	1,289.14	52.95	15.00	1.16
Pledged loans	181.14	6.53	0.60	0.33	82.67	3.40	1.11	1.34
Guaranteed loans	701.79	25.30	8.42	1.20	679.44	27.91	6.19	0.91
Unsecured loans	336.29	12.12	1.13	0.34	166.98	6.86	1.68	1.01
Discounted bills	167.61	6.04	-	-	216.11	8.88	-	-
Total loans and advances to customers	2,773.71	100.00	29.67	1.07	2,434.34	100.00	23.98	0.98

During the economic downturn period, the Bank focused on the implementation of risk mitigation measures including increasing collaterals to prevent and control risk. As at the end of the reporting period, both NPL and NPL ratio of loans secured by collateral and guaranteed loans recorded increases compared with the end of last year due to the effect of an overall economic environment. The Bank has adopted other risk mitigating measures such as improving its guarantee and assets preservation under litigation to handle NPL risk in a timely manner.

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.6 Loans of the top 10 single borrowers

The following table sets forth the Bank's loans of the top 10 single borrowers as of the date indicated.

Top 10 borrowers	Industry borrower belongs to	Amount of loans as of 31 December 2016 (RMB million)	% of net capital
A	Financial services	2,000	2.91%
B	Commerce and services	1,960	2.85%
C	Public utility	1,800	2.62%
D	Public utility	1,520	2.21%
E	Commerce and services	1,434	2.09%
F	Energy and chemical	1,540	2.24%
G	Energy and chemical	1,167	1.70%
H	Commerce and services	1,050	1.53%
I	Real estate	1,046	1.52%
J	Financial services	1,000	1.45%
Total		14,517	21.12%

5.4.7 Distribution of loans by overdue period

The following table sets forth the distribution of loans by overdue period as of the dates indicated.

	31 December 2016	31 December 2015
	(RMB million)	
Total overdue customer loans and advances listed by duration		
Within 3 months	1,609	314
3 to 6 months	1,444	1,952
6 to 12 months	1,737	1,867
Over 12 months	1,274	810
Total	6,064	4,943
Percentage		
Within 3 months	26.53%	6.36%
3 to 6 months	23.82%	39.48%
6 to 12 months	28.65%	37.77%
Over 12 months	21.00%	16.39%
Total	100.00%	100.00%

Chapter V Management Discussion and Analysis

5.4 LOAN QUALITY ANALYSIS (Continued)

5.4.8 Restructuring loans

The Bank's balance of restructuring loans was RMB831 million at the end of 2016. Among the total loans of Huainan Mining Industry (Group) Co., Ltd. and its member companies (7 member companies in total), a total of RMB438 million was related to loan restructuring, among which, the credit balance of RMB398 million (guaranteed by credit) was for the headquarters of Huainan Mining Modern Logistics Co., Ltd. and the credit balance of RMB40 million (guaranteed by Huainan Mining Modern Logistics Co., Ltd.) was for Huainan Mining Eastern China Logistics Market Co., Ltd., a subsidiary of Huainan Mining Modern Logistics Co., Ltd. The Bank implemented loans restructuring according to the restructuring plan made by the court in 2015. Upon adjustment, the term of the loans was eight years, and the loans were jointly guaranteed by Huainan Mining Group and reclassified as special-mentioned loans. In addition, the Bank increased its restructuring loans of RMB393 million in 2016.

5.4.9 Transfer of credit assets

The Bank disposes its credit assets by transferring such assets to third parties in the ordinary course of business. In 2016, the Bank transferred such assets in an original loan value of RMB3,129 million, and derecognized such loans.

5.4.10 Change of allowances for loan impairment

The Bank reviews its loan portfolios to assess impairment loss on a periodic basis. In determining whether there is an impairment loss, the Bank makes judgments on whether there is any observable data indicating that there is a decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within an individual loan in that portfolio. For assets with similar credit risk characteristics and objective evidence of impairment, the Bank makes estimation on the future cash flows of such loan portfolio based on historical loss experience for similar assets. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed by the Bank regularly to reduce any differences between the estimated impairment loss and the actual loss on loans.

The following table sets forth the changes of allowances for impairment on loans to customers.

	<i>Unit: RMB million</i>	
	2016	2015
Balance at beginning of the year	6,006	4,662
Allowances for impairment on loans to customers	4,767	2,686
Unwind of discount on allowance	(89)	(65)
Loans written-offs during the year	(2,807)	(1,344)
Loans collected during the year	158	67
Balance at end of the year	8,035	6,006

Chapter V Management Discussion and Analysis

5.5 CAPITAL ADEQUACY RATIO ANALYSIS

The Bank continued to optimize structure, enhance capital management, and meet the regulatory requirements on capital adequacy ratio set by the CBRC within the reporting period.

The Bank calculated the capital adequacy ratio in accordance with the relevant requirements contained in the “Administrative Measures for the Capital Management of Commercial Banks (Trial)” issued by the CBRC. As of 31 December 2016, the Bank’s capital adequacy ratio was 12.99%, core Tier 1 capital adequacy ratio was 8.79%, and Tier 1 capital adequacy ratio was 9.94%.

The table below shows information relating to capital adequacy ratios of the Bank as at 31 December 2016.

Unit: RMB million, except for percentages

	31 December 2016
Core Tier 1 capital	46,637.74
Including: Paid-in capital	11,049.82
Capital reserve	6,630.29
Surplus reserve and statutory general reserve	12,744.61
Retained earnings	15,456.59
Non-controlling interests	756.43
Regulatory deductions for core Tier 1 Capital	(116.94)
Core Tier 1 capital, net of deductions	46,520.80
Other Tier 1 capital, net of deductions	6,085.61
Tier 1 capital, net of deductions	52,606.41
Tier 2 capital	16,126.98
Including: Tier 2 capital instruments and premium	10,382.62
Surplus loan loss provisions	5,550.13
Non-controlling interests	194.23
Total capital, net of deductions	68,733.39
Credit risk-weighted assets	496,433.66
Market risk-weighted assets	1,029.65
Operational risk-weighted assets	31,768.74
Risk-weighted assets	529,232.05
Capital adequacy ratio	12.99%
Tier 1 capital adequacy ratio	9.94%
Core Tier 1 capital adequacy ratio	8.79%

Chapter V Management Discussion and Analysis

5.5 CAPITAL ADEQUACY RATIO ANALYSIS (Continued)

Pursuant to regulatory requirement, the capital adequacy ratio of the Bank above is calculated after consolidating relevant data of Jinzhai Huiyin Rural Bank Co., Ltd., Wuwei Huiyin Rural Bank Co., Ltd. and Huiyin Financial Leasing Co., Ltd.

Leverage ratio

Item	31 December 2016	31 December 2015
Leverage ratio	6.25%	5.76%
Tier 1 capital, net of deductions	52,606	41,492
Adjusted balance of assets on and off the balance sheet	841,398	720,318

Note: Indicators related to leverage ratio are calculated pursuant to the Administrative Measures for Leverage Ratio of Commercial Banks (Revised) (No. 1 Order of CBRC in 2015) effective from 1 April 2015, among which, Tier 1 capital, net of deductions, is audited data, while adjusted balance of assets on and off the balance sheet is unaudited data required by the regulator.

5.6 SEGMENT PERFORMANCES

Operating segments

The Bank provides services through four main business segments: corporate banking, retail banking, treasury and others. The table below sets forth the performance of four operating segments as at the periods indicated.

	January to December 2016		January to December 2015	
	Total segment profits	Percentage (%)	Total segment profit	Percentage (%)
<i>(RMB million, except for percentages)</i>				
Corporate banking	4,561	51.76	4,710	59.07
Retail banking	872	9.89	631	7.91
Treasury	3,003	34.07	2,457	30.82
Others	377	4.28	175	2.20
Total	8,813	100.00	7,973	100.00

During the reporting period, the total profits of corporate banking business of the Bank amounted to RMB4,561 million, representing 51.76% of total profits. Total profits of retail banking business amounted to RMB872 million, representing 9.89% of total profits. Total profits of treasury business amounted to RMB3,003 million, representing 34.07% of total profits.

Chapter V Management Discussion and Analysis

5.6 SEGMENT PERFORMANCES (Continued)

Geographical segments

Geographically, the Bank's business is mainly in Mainland China. It has set up branches in Anhui Province and Pan-Yangtze River Delta area. The table below lists the geographical segments performance as at the periods indicated.

	31 December 2016				
	Anhui Province	Pan-Yangtze River Delta area	Head office	Intersegment eliminations	Total
Segment assets	453,208	49,295	435,163	(185,201)	752,465
Include: investments in associates			539		539
Deferred income tax assets	-	-	-		2,309
Total assets					754,774
Segment liabilities	(266,682)	(45,906)	(574,204)	185,201	(701,591)
Total profits	5,515	510	2,788		8,813

	31 December 2015				
	Anhui Province	Pan-Yangtze River Delta area	Head office	Intersegment eliminations	Total
Segment assets	335,142	56,924	415,009	(172,218)	634,857
Include: investments in associates			414		414
Deferred income tax assets	-	-	-		1,274
Total assets					636,131
Segment liabilities	(219,484)	(67,024)	(479,495)	172,218	(593,785)
Total profits	4,916	388	2,669		7,973

5.7 OTHERS

5.7.1 Off-balance sheet balances and important circumstances that may have significant impacts on the financial position and operating results of the Bank

The off-balance sheet items of the Bank include letter of guarantee, letter of credit, bank acceptance and bank commitment letters. Commitment letters include loans commitment, operating leases commitment, capital commitment and certificate bond honor commitments. Contingencies and commitments can be found in Note 40 of the financial statements.

5.7.2 Overdue outstanding debt

As the end of 2016, the Bank had no overdue outstanding debt.

Chapter V Management Discussion and Analysis

5.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICY AND THE FOCUSES OF THE OPERATION

In 2016, the global economy and trade hit the lowest growth over the last seven years, the international financial market showed obviously intensified volatility, and the external environment was complex and changeable. Under the circumstance where a number of contradictions superposed and several potential risks showed off, China's economic growth remained slow and stable, the supply-side structural reform has shown its effect at the first face, adjustments in the economic structure have accelerated, and the implementation of innovation-driven strategies has been deepened. Meanwhile, the industrial transformation and consumption upgrade have imposed higher requirements to the financial services.

1. Significant changes in customers' financial needs

Looking back on the history of banking development, the developments of new financial markets, new industry conditions and new tools have been driven by the changes in customers' demands. With the promotion on swap of local debts and the exploration on PPP model, an increasingly higher level of standardization and marketization is required for the government's financing needs. With the implementation of the supply-side structural reform, the financial demands of the enterprise customers have shifted to the smooth use of funds, efficient operation of assets, and utility of various capital instruments. As the scientific and technological progress, industrial restructuring and consumption upgrade have accelerated, the customers' demands in the industry more focus on customization and specialization. Relying solely on providing a single product is no longer able to meet the customers' financial needs, and the traditional banking service model is unsustainable.

2. Increasingly frequent cross-industry competition and cooperation

With the diversification and perfection of customers' demands, financial institutions have put forward a comprehensive financial strategy, and the traditional financing system which focuses on indirect financing has gradually changed. The cross-industry competition among banks, securities, trusts, funds and other financial institutions is becoming more and more intense, and model innovation in financial services continue to emerge, which has brought a huge impact on the banking industry that operates in relatively traditional model. In addition, technological innovation has enabled a number of non-financial enterprises to break through the industry barriers and get involved in financial services, such as the emergence of third-party payment, network finance, P2P, etc. Meanwhile, the scope of services has gradually extended from retail customers to corporate customers and therefore the traditional advantages of the banking industry have been increasingly undermined. In order to enhance the ability to serve its customers, banks have begun to facilitate cooperation with a wide range of financial institutions and technology companies to promote product innovation, expand technology applications and diversify the ways of banking and financial services, and thus cross-industry cooperation becomes more frequent.

Chapter V Management Discussion and Analysis

5.8 INFLUENCE OF CHANGE IN OPERATING ENVIRONMENT AND MACRO POLICY AND THE FOCUSES OF THE OPERATION (Continued)

3. More complicated financial risk

The financial risk has become more difficult to control than the risks in the credit business of traditional banks as the financial innovation has led to more diversified types of assets, a more complex transaction structure, greater diversification of transaction targets and a more internet-based trend in the cross-regional business. As cross-industry financial cooperation makes the same underlying assets get involved in the balance sheets of a number of financial institutions, the risk exposure has become more infectious, which has exacerbated the fragility of the financial system, and it is much harder to accurately assess the risk environment that banks are facing. In the information age, the risk events of banks spread faster and have wider influence, which will be more likely to cause reputation risk and incur more losses, thus making risk control particularly crucial. Furthermore, the use of financial technologies will also bring new risk points although such financial technologies have provided new risk control tools and ideas and improved the level of intelligent risk management.

5.9 BUSINESS OPERATION

5.9.1 Wholesale banking

Business overview

The Bank provides a full range of wholesale financial products and services to corporations, financial institutions and government and institutional customers. During 2016, based on its characteristics as a city commercial bank, the Bank continued to develop its Anhui local market while exploring Nanjing and markets in other provinces, and provided comprehensive financial services and promoted business integrated operation leveraging various products, means and tools. The Bank continued to strengthen its advantage in the traditional wholesale business with municipal, governmental and institutional customers. It has further accelerated the innovation of its business modes and products, continued to foster new business growth point, restructured its business, enhanced risk control, fully increased its asset profitability, facilitated the steady increase of interest income and fast increase of the proportion on non-interest income in total income, and promoted the fast and healthy development of the wholesale business. As of 31 December 2016, the Bank's market share of domestic and foreign currency corporate deposit continued to rank the first in Anhui Province for nine consecutive years and increased by 0.84% from the end of the last year, with its leading advantages further enhanced. The Bank creatively developed series products of "PPP Quanchengtong (全程通)" as well as provided comprehensive financial services for the government. Transformation businesses including investment banking and trade banking had all achieved rapid growth, and innovated fund businesses including emerging strategic industry fund were widely recognized by the market.

In 2017, in the aim of comprehensive development, the Bank will positively respond to market, continue to expand quality client, size quality asset project, strive to strengthen product innovation and services optimization, accelerate structure adjustment and business transformation, enhance professional service ability, so as to provide professional and comprehensive financial services, striving to realize sustainable development of wholesale banking business.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Corporate loans

The Bank's corporate loans include working capital loans, fixed asset loans, PPP project loans, supply chain financing and other loans (such as real estate project loans and commercial house purchase loans to legal person). During 2016, the Bank, while operating its business in compliance with laws and regulation, adhering to the principle of "taking protective or suppressive measures" and with reference to macro-economic policies of China, further optimized the industry structure of corporate loans by prioritizing its support to structural upgrading industries, traditional industries with competitive advantages and modern services industries. The Bank effectively controlled the growth of government financing platforms and loans to the "Non-green Industries". As of 31 December 2016, the Bank's corporate loans (including discounted bills) balance was RMB195,963 million, increased by RMB16,923 million from the beginning of the year.

In 2016, in order to be more professional, the Bank pushed forward the reform on the professional operating mode of small enterprise businesses, constantly improved the marketing, product innovation, risk control and profit-making capabilities with respect to small enterprise customers, and refined performance evaluation and resource allocation mechanisms. These efforts enabled the Bank to realize the goal of "three no less than" in the growth rate, number of borrowers and proportion of successful loan applications regarding loans extended to small and micro enterprises, and significantly improve its comprehensive financial service capacity and business management level regarding small enterprises. The main approaches were as follows:

Firstly, with focus on leading industries, emerging industries, new business forms and featured economies, the Bank expedited the placement of loans to qualified small enterprises, and raised the proportion of loans, comprehensive income and market share regarding such small enterprises, by properly handling the relationship between development and risks and tapping into (large groups of) customers attracted via platforms and precise marketing model. It reinforced coordination and collaboration among the business lines of corporate banking, financial industry business and retail banking. In line with instructions in the policies of CBRC on financial services for small and micro enterprises, the Bank ensured the realization of "three no less than" in the growth rate, number of borrowers and proportion of successful loan applications regarding loans extended to small and micro enterprises. In this way, the Bank provided effective services to the real economy and entrenched its role as a major and host bank in serving medium and small enterprises in the region.

Secondly, in the context of macroeconomic downturn and rising operational risks of small and micro enterprises, the Bank took the initiatives in solving a range of difficult constraints on business development of small enterprise business with professionalism in the five areas of "organization, teams, products, process and assessment" and adhering to the principles of "problem-orientation, self-sustainability and steady advance". As a result, it developed mechanisms of operation, methods of marketing, tools of risk control, enhancement of abilities and guidance of performance, and reached the reform goals of improved efficiency, sustainable operation, controllable risks and replicable models. It also built up a small enterprise professional operating model unique to Huishang Bank in the initial stage.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Corporate loans (Continued)

Thirdly, the Bank stepped up development and marketing of flagship products and promoted customer service ability. Considering the overall scarcity of secured guarantees on offer to and the “short-term, frequent and urgent” financial demands of small and micro enterprises, the Bank kept advancing the development and innovation of products tailored for small and micro enterprises. At present, it has launched approximately 50 standardized small enterprise financial products falling in seven primary categories to cover financial demands of small and micro enterprises at different growth stages and from different industries. It promoted the “Tax e-Finance” business at a faster pace and realized customer attraction through online marketing therewith. It did the utmost to market its featured products including Easy-Revolving-Loan, re-guarantee loans based on the proportion of risks shared by banks and the government and Easy-Tax-Loan. The Bank constantly expanded and optimized small enterprise finance services platform with regards to market demands. It also opened an online loan application channel for small enterprises and put in place a model featuring online application, online-offline combined investigation and online approval. These efforts helped the Bank obtain better market reputation and stronger product competitiveness than other banks.

Fourthly, the Bank carried out precise marketing to boost its ability of customer attraction. It clearly defined the tiered mechanism of marketing platform management, and sorted and integrated resources of information platforms and business platforms at different levels from the head office to sub-branches, so as to realize the marketing and development regarding customers within the platforms. In view of regional industrial layout and economic composition, the Bank intensified efforts to develop target customers with focus on industrial parks, industrial clusters, business circles, professional markets and core manufacturers and chiefly by clustered bulk marketing. The Bank achieved customer attraction through online marketing as it integrated online and offline channels transformed the models of customer attraction and services. It also formulated marketing standards for target customers, and employed big data in raising the level of precise marketing and enhancing the professional marketing and service abilities of branches and sub-branches.

Discounted bills

In 2016, based on the overall balance of assets size, liquidity, profitability and risk, the Bank actively responded to changes in the operating environment, scientifically followed the pace of bills business development, enhanced the profitability of the bills business, and promoted the healthy and compliant development of bills business. As of 31 December 2016, the Bank’s balance of discounted bills amounted to RMB16,761 million, representing an decrease of RMB4,849 million from the end of the last year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Corporate deposits

While continuing its efforts to maintain current customers, the Bank focused on application and innovation of its deposit product portfolios, enhanced coordinated marketing of corporate banking business and personal banking business, so as to provide integrated services solutions to customers and improve comprehensive income of its various businesses. Through developing innovative businesses such as fund business, investment banking, supply chain finance, cash management, bill business and custody business, the Bank has taken in a substantial amount of low-cost corporate deposits by continuously improving the quality of customer services and broadening the sources of deposits. During 2016, the scale of the Bank's corporate deposits grew steadily. As of 31 December 2016, the Bank's balance of corporate deposits amounted to RMB332,887 million (excluding margin deposits), representing an increase of RMB89,704 million from the last year.

PPP (Public-Private-Partnership) business

Attaching great attention to the investment and financing systems reform in respect of PPP by the government, the Bank adopted a variety of financial instruments, developed series products of "PPP Quanchengtong (全程通)" to support and guide social capital providers to participate in the PPP projects by its demand research and product innovations. The Bank also integrated all kinds of professional resources including consultation, laws, finance and engineering, provided a full range of professional services for PPP projects from identification and implementation to purchase, execution and delivery, which accelerated the pace in implementing PPP projects by the local government as well as provided comprehensive financial services for the government. In 2016, under the support of Anhui Provincial Government, the Bank founded the provincial PPP guidance fund and PPP industry alliance in Anhui Province with a total fund registration size of RMB50,000 million. Relying on the provincial PPP guidance fund and PPP industry alliance, the Bank provided comprehensive financial services covering whole process and lifetime of the PPP projects and strived to develop itself into the brand image of a comprehensive financial services provider of the government through its comprehensive financial products such as funds, loans, letters of guarantee, supply chain, retail and asset securitization.

Fund business

To meet the new needs of corporate customers under new situation, the Bank launched innovative fund cooperation modes, including urbanization fund, industry development fund and small and medium enterprise profit-making development fund. Urbanization fund was used for swapping the liquidity inventory debts of local governments, amounts payable by governments and other public service that meet the requirements under national files. Industry development fund and small and medium enterprise profit-making development fund were used for supporting the development of small and medium enterprises and related industries. As of the end of the reporting period, the Bank realized a total amount of RMB131,225 million in the urbanization fund business in which the Bank invested and participated in the operation; RMB5,656 million in industry development fund business and RMB2,150 million in small and medium enterprise profit-making development fund.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Transaction banking

Cash management business is a strategic corporate finance business of the Bank in response to the challenge brought by interest rate liberalization. Cash management will be the core business of transaction banks. Through various businesses including establishing transaction bank business model, providing account management, receiving and payment management, liquidity management, investment and finance management, risk management, and information services, the Bank was committed to building a domestic and foreign currency integrated services platform, taking advantage of the strength of professional services of transaction banks, met cash management demands of customers during the entire transaction process, fully promoted the fast development of corporate banking business. The Bank also vigorously promoted product innovation, increasingly expanded customer base and services scope, obviously enhanced cash management comprehensive services ability and market influence. Particularly, the Bank's advantageous asset and cash management scheme for government and industries is taking a leading position. During 2016, the transaction amount of cash management business of the Bank exceeded RMB1,000 billion, representing an increase of 23.75% from the last year. In December 2016, the Bank won the award of the "Best Regional Treasury Management Bank" and the award of the "Best Treasury Management Solution" (by virtue of the cash management resolution proposed to its customer as a bid) under China Treasury Management Awards 2016 at the Annual Conference of China Cash and Treasury Management (CCTM).

The Bank actively optimized financial business structure of supply chain, and expanded supply chain finance business based on core enterprises and consumer industries. At the same time, the Bank continued to innovate in financial business model of supply chain business, and had formed more than 30 standardized products to meet the needs of the full chain of supply chains, enhanced its brand image, and increasingly enhanced its comprehensive services ability and market influence. In December 2016, the Bank won the award of the "Best Supply Chain Financial Bank" in the Sixth (2016) Appraisal of the Most Trusted Financial Service Provider of Economic and Trade Enterprises in China.

Investment banking business

The Bank focused on carrying out the lead underwriting business of debt financing instruments, asset securitization, structure financing, merger and financing, investment and financing consultancy and other investment banking business, and promoted its business transformation. The Bank further enriched products in investment banking business, and introduced debt financing plans, asset securitization and other innovative products.

After obtaining the qualification as a lead underwriter for Type B Debt Financing Instruments of Non-financial Enterprises, the Bank actively carried out lead underwriting business. As at 18 February 2016, with the approval of National Association of Financial Market Institutional Investors, the Bank became one of the first lead underwriters for Type B that obtained the independent lead underwriting qualification. The Bank was allowed to independently conduct lead underwriting business for debt financing instruments of non-financial enterprises within Anhui Province, indicating that the Bank took another significant step in serving regional economic construction and direct corporate financing. During 2016, the Bank successfully registered eleven debt financing instruments, with a registered amount of RMB43,400 million, issued fourteen debt financing instruments, with a total amount of RMB11,600 million, and completed two innovative debt financing programs worth a total of RMB600 million on Beijing Financial Assets Exchange, effectively facilitating the business transformation and development of the Bank.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.1 Wholesale banking (Continued)

Investment banking business (Continued)

The Bank made breakthrough in asset securitization and successfully obtained the registration and administrative licensing for asset securitization of RMB5 billion personal housing mortgage loans (RMBS) from the PBOC. The Bank completed the first asset securitization transaction for the issuance of RMB629 million personal housing mortgage loans and concluded the first lead underwriting business for an enterprise asset securitization worth RMB1,660 million, which marked another breakthrough of the Bank hereof in the businesses of personal housing mortgage loans and enterprise asset securitization following corporate credit asset securitization (CLO), laying a solid foundation for diversified development of its securitization business.

International business

In 2016, the Bank focused on providing support to the “One Belt, One Road” national strategy, Renminbi internationalization, and small and medium enterprises to “Go Global”, vigorously developing cross-border settlement, cross-border financing and comprehensive corporate financing services. As of the end of 2016, the Bank handled a total of USD6,769 million in international settlement for its customers, representing a year-on-year increase of 8.79%, and its cross-border payment and settlement amounted to USD5,213 million (excluding Nanjing region), which ranked 5th among financial institutions within the province.

The Bank always adheres to being customer-based, and constantly improves international market share. At the end of 2016, the Bank has 3,492 customers from international business, representing a year-on-year increase of 24.89%, among which active customers in trade finance amounted to 1,469. With increasing expansion of its international customer group, the Bank’s customer base continues to consolidate.

In 2016, the Bank continued to seek breakthroughs in product innovation of international business by launching a number of innovative businesses according to market demand, including cross-border M & A, cross-border dividend distribution and financing, syndicated loan for cross-border project, cross-border two-way Renminbi capital pool, interest payment from buyer under domestic letter of credit, “banker-trader-manufacturer” financial services and renegotiable non-recourse financing. At the end of December 2016, accumulatively granted on-sheet international trade financing amounted to RMB5,082 million; domestic letters of credit and financing business thereunder amounted to RMB18,182 million; and the balance of financing external guarantee amounted to USD1,051 million. The scale of innovative financing products hit a new record high. Derivative products business (including future foreign exchange settlement, forward exchange transactions, foreign exchange swap and RMB foreign exchange swaps) amounted to USD1,745 million, while the volume of foreign exchange transactions reached USD13,442 million, representing a year-on-year increase of 8.98%.

In distributors channel construction, the Bank became a member of China-Russia financial alliance, implemented its new layout and new strategies of agency banking in line with “One Belt, One Road” policy and further improved its overseas agency networks according to customer and business development demands. The Bank developed a blacklist-based screening system where banks on the list of global regulation and supervision were screened automatically. Along with the establishment of Yuan-Won direct trading market, the Bank newly set up the Won clearing account, taking the total number of overseas clearing accounts for the main settlement currencies to sixteen. The Bank constantly optimized overseas agency banking structure and improved clearing channels, in order to fully meet customer demands for clearing and settlement services.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business

Business overview

In 2016, through enhancing market expansion, providing innovative financial products and services, accelerating business channel and team building, the Bank actively built wealth management systems, conducted the construction of inclusive finance systems, and vigorously promoted outlet capacity improvement. These efforts have helped lay a solid foundation for retail business development of the Bank and improve the performance indicators and regional competitiveness of its retail business.

In 2016, the Bank's active customer base maintained a steady growth, among which the number of medium-to-high-value customers grew faster than others. Customer structure was further optimized. As of the end of December 2016, the number of customers with assets of RMB500,000 or above amounted to 46,690, representing an increase of 58.6% as compared with the beginning of the year. The number of customers with assets over RMB2 million increased by 37.8% from the beginning of the year. Wealth management business maintained a rapid growth rate, sales of wealth management products (WMPs) grew rapidly, agency sales of insurance increased significantly, and sales of PRC treasury bonds were in a leading position in the province.

The scale of deposits and loans of retail customers expanded continuously. Indexes of new retail deposit increase reached the highest level in the history, indexes of new retail deposits and daily average saving deposits recorded their historical high for the corresponding periods. Market share of retail deposits in Anhui Province kept rising for three consecutive years. Moreover, the growth rate of retail deposits also exceeded the average growth rate of Anhui Province, while the increase of retail deposits overtook the four major banks in China, jumping to the third highest in the province. The scale of retail deposits at county level recorded significant growth. The business scale of retail loans continued to grow and personal loan pricing level continued to increase.

Bank card fees amounted to RMB514 million in 2016, representing a year-on-year increase of RMB221 million or 75.43%, which were primarily led by a rapid growth in the income generated from the promotional campaigns of bank card consumptions and credit card installments.

In 2017, with interest rate liberalization and strong impact from Internet finance, the retail business will suffer more pressure than before. The Bank, through improving the retail business philosophy, management, innovation and technology, will strengthen the retail business talent pool, improve the capabilities of outlets, broaden wealth management product lines, improve service quality and strengthen data analysis ability. At the same time, the Bank will accelerate the building of a series of infrastructural work, such as establishment of wealth centers, Huinong sub-branches, Huimin sub-branches, community branches as well as micro and small branches, and advance a series of works including construction of inclusive finance system and outlet sales capacity enhancement. The Bank will continue to maintain a rapid and healthy growth in each of the retail business, so as to comprehensively improve the overall competitiveness of retail businesses and their contribution to the entire business.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Wealth management business

The Bank's personal wealth management business mainly includes personal wealth management services, agency service for sales of funds, agency service for sales of insurance products, agency service for sales of treasury bonds and agency service for sales of gold. In 2016, the Bank achieved the sales of wealth management products through direct banking channels with the launch of open-end wealth management products with flexible terms, and fully established a relatively comprehensive wealth management product line with the introduction of six new insurance products. The Bank's personal non-saving financial assets amounted to RMB52.189 billion, representing an increase of RMB20.745 billion as compared to the beginning of the year and a growth rate of 65.97%, of which:

In 2016, the total sales of personal wealth management products reached RMB92.056 billion, representing an increase of 80.48% as compared with the same period of the last year. Meanwhile, ownership volume of personal wealth management products amounted to RMB43.134 billion, representing a year-on-year increase of 94.44%. Whereas agency sales of funds amounted to RMB4.272 billion, and agency sales of insurance products amounted to RMB504 million, representing a growth rate of 690%. In addition, the agency sales of treasury bonds amounted to RMB1.098 billion, representing an increase of 51%, and agency sales of gold amounted to RMB18.0179 million.

In 2016, intermediary personal wealth management business income of the Bank amounted to RMB385 million, representing an increase of RMB218 million or 131%. Among those, personal wealth management business achieved an intermediary business income of RMB362 million, representing an increase of 230% as compared with the same period of the last year, whereas agency sales of gold achieved an intermediary business income of RMB812 thousand, and agency sales of funds achieved an intermediary business income of RMB4.17 million, representing an increase of 34.95% as compared with the same period of the last year. Also, agency sales of insurance products achieved an intermediate business income of RMB11.6387 million, representing an increase of 226.75% over the corresponding period of the last year. Moreover, sales of PRC treasury bonds achieved an intermediary business income of RMB5.8284 million, representing an increase of 39.99% as compared with the corresponding period of the last year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Bank card business

One card

In 2016, the Bank further deepened the expansion and operation of the customer base of retail business. In adherence to the customer-centric business philosophy and with an aim to cater to the customers' needs, through launching different types of co-branded cards, the Bank vigorously promoted the circulation of financial IC cards, enhanced the resource integration of preferential merchants, proactively carried out various kinds of marketing activities for bank cards, constantly cultivated the card-using habits of customers and constantly enhanced its customer loyalty, so as to further achieve a steady and continuous growth in Huangshan Debit Cards transactions. As of 31 December 2016, a total of 10.357 million Huangshan Debit Cards were issued by the Bank. Total deposits of the cards amounted to RMB45.124 billion, accounted to 42.76% of total retail deposits. Deposit per card amounted to RMB4,356.82. Throughout the year, the Bank has realized a POS trading volume of 8.1553 million transactions, representing an increase of 18.16% as compared to the corresponding period of the last year, and the transaction amount amounted to RMB70.285 billion, representing an increase of 36.14% as compared to the corresponding period of last year.

Credit card

In 2016, the Bank continued to follow the service philosophy of "Closest and Happiest" (零距離滿心意) for Huangshan Credit Card, and continuously enriched the contents of the brand marketing activity named "Various Weekend Benefits for Huangshan Credit Card" (黃山信用卡週末繽紛惠) to constantly enhance customer loyalty for the card. Also, the Bank continued to improve product functions and focused on promoting the release of consumer financial products to meet customers' need for fund turnover. As one of the first bank card issuers to support Huawei PAY and Xiaomi PAY, the Bank centered on advancing mobile payment business to further improve customers' payment experience. Meanwhile, the Bank continued to perfect the service functions for credit cards on Wechat and mobile APP to enhance online interaction experience of customers and increase the number of followers and the ratio of cards used on such channels.

As of the end of the reporting period, the Bank issued a total of 767,687 credit cards, of which 700,487 were valid cards. The number of credit cards newly issued during the reporting period was 259,987. Throughout 2016, the transaction amount of credit cards was RMB25.98 billion in aggregate. The credit card overdraft amount was RMB6.018 billion, representing an increase of RMB411 million as compared with the end of the last year. Credit card interest income amounted to RMB70.472 million, representing an increase of 17.59% as compared to the same period of the last year. Credit card non-interest income amounted to RMB474.0331 million, representing an increase of 107.6% as compared to the same period of the last year. As of 31 December 2016, credit cards NPL ratio was 1.84%, representing an increase of 0.71% from the end of the last year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.2 Retail banking business (Continued)

Retail loans

In 2016, the Bank increased its effort to develop the personal loan business market, steadily promoted the development of personal business loans and continued to expand the operating scale. Due to the macro-economic downturn, the creditworthiness and solvency of certain individual customers deteriorated, resulting in the increase of non-performing loans. However, the overall asset quality of personal loans of the Bank was relatively good and the level of NPL ratio was relatively low, allowing the Bank to take an advanced position among peers. Meanwhile, given that the vast majority of such new NPLs were fully secured by risk mitigation measures, such as collaterals, the possibility of sustaining eventual losses on such loans is slim. As of 31 December 2016, retail loans of the Bank amounted to RMB51.317 billion (credit card installment not included), representing an increase of RMB13.515 billion or 35.75% as compared with the beginning of the year. Retail loans NPL ratio of the Bank was 0.19%, representing a decrease of 0.02% from the beginning of the year.

In 2016, the Bank continued to explore the mode of microloan business and strengthen the construction of microloan mechanism and system to promote the development of personal business microloan business. Meanwhile, the Bank further refined microloan products and customer structure to promote the steady development of microloan business under the economic downturn.

Retail customer deposits

In 2016, the Bank experienced substantial development of interest rate liberalization, blooming development of internet finance, diversification of customer financial needs, and intense competition in the industry. The Bank, by adhering to customer-oriented business philosophy, focused on customer needs on wealth management, payment settlement and consumption loan, through accelerating market respond speed, promoting rural inclusive financial system construction, getting through off-line and on-line services channel, constantly innovating products and sales model, achieved rapid growth in customer deposits. As of 31 December 2016, the Bank's retail customer deposits amounted to RMB105,532 million, representing an increase of 21.62% as compared with the end of the last year. County level retail deposits under headquarter amounted to RMB24.064 billion, representing an increase of RMB8,879 million, or 58.48% as compared to the beginning of the year. As of 31 December 2016, the market share of the Bank's retail deposits in Anhui Province reached 5.38%, representing an increase of 0.43 percentage point from the beginning of the year. Retail deposits of the year were characterized with a fast and steady growth with low cost and optimized structure.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.3 Financial market business

Business strategy

In 2016, the Chinese economy took a turn for the better while maintaining stability with little inflationary pressure. The PBOC implemented prudent monetary policies with more emphasis on moderate tightness and pre-tuning and fine-tuning, and the market liquidity was basically stable, except at a limited number of time points such as quarter ends and festivals and holidays. The Bank adopted proactive and prudent strategies for bonds investment and formulated scientific investment plan. Firstly, the Bank actively strived to diversify its investment portfolio and accelerate the adjustment to the investment structure, paid extra attention to the time points for position opening, and controlled the duration of the portfolios to improve their yields. Secondly, the Bank proactively participated in the securities swing trading in secondary markets so as to improve the income from transaction spread while sparing no efforts to strengthen its market making capabilities and proactively performing its obligations as a probationary market maker. Thirdly, the Bank actively conducted interest rate swaps and other derivative-related transactions, and continuously expanded counterparties to optimize business mode and improve the market recognition and influence in terms of derivative -related transactions. As of the end of 2016, the average duration of RMB bond investment portfolios was 2.84 years, annual return on investment portfolios was 4.22%, and the yield taking account of the tax rebate on the interest income of treasury bonds and railway bonds was 4.80%.

Business development

During 2016, the Bank promoted the continuous and stable growth of its financial businesses by continuously strengthening business innovation and enriching business variety. In June 2016, the Bank acquired the exclusive qualification for proprietary gold trading and officially participated in the trading activities in noble metal market with the approval of Shanghai Gold Exchange, marking a major step forward in the development of proprietary noble metal business. In 2016, the Bank put increasing efforts on the underwriting of treasury bonds and policy financial bonds to raise the intermediary business income. As at the end of 2016, the Bank's investment scale amounted to RMB338.148 billion, representing an increase of 46.77% as compared with 2015. The Bank's transaction volume of the gold lending and swap business recorded RMB2.464 billion.

In respect of entrusted wealth management business, the Bank accumulatively raised closed-end wealth management products of RMB168.724 billion in 2016, representing an increase of 61.45% as compared with the corresponding period of the last year. The balance of wealth management products at the end of the period amounted to RMB102.165 billion, representing an increase of 55.92% as compared with the corresponding period of last year. The daily average balance of wealth management products amounted to RMB73.573 billion, representing an increase of 67.61% as compared with the corresponding period of last year.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.4 Distribution channels

The Bank uses a variety of distribution channels to provide products and services. The Bank's distribution channels are mainly divided into physical distribution channels and electronic distribution channels.

Physical distribution channels

As of 31 December 2016, the Bank had a total of 667 self-service banks (including single point), 2,235 cash self-service equipment (including 584 ATMs, 933 CRSs, 555 self-service terminals and 163 self-service card issuing machines).

Electronic distribution channels

The Bank put great emphasis on expanding, improving and coordinating with electronic banking channels, including online banking and mobile banking. In 2016, the Bank enhanced the management on the operation of electronic channels centered on mobile internet, which effectively relieved the pressure on outlets. In 2016, the trading account transactions via retail electronic channels accounted for 82.37%; whereas trading account transactions via corporate electronic channels accounted for 61.11%, representing an increase of 3.5 percentage points as compared to the last year.

Online banking

In 2016, the Bank's personal online banking business maintained a steady development with a steady growth in customer base and increasing trading activity of customers. As of the end of 2016, the total number of personal online banking customers amounted to 2.1949 million. The trading account transactions via personal online banking accounted for 47.4%, representing an increase of 1.79% as compared to the last year. The number of personal online banking transactions accumulated to 197.1614 million in 2016, representing a year-on-year increase of 51.99%. Among these transactions, the number of online payment transactions was 31.0005 million, representing a year-on-year increase of 152.01%, and the transaction amount was RMB24.720 billion, representing a year-on-year increase of 107.10%. In recent years, the enterprise online banking business of the Bank experienced comprehensive and rapid development, with a constantly solidified customer base and increasingly efficient channels. As of the end of 2016, the Bank's total number of enterprise online banking customers amounted to 115.8 thousand and the Bank recorded 40.9316 million enterprise online banking transactions in 2016, representing a year-on-year increase of 16.33%. The transaction amount of enterprise online banking accumulated to RMB2,056.777 billion, representing a year-on-year increase of 27.39%.

Mobile banking

In 2016, the Bank's personal mobile banking continued to maintain a rapid growth with increasing customer activity. As of the end of 2016, the total number of contracted mobile banking customers reached 1.3130 million. In 2016, the number of mobile banking transactions reached 44.8245 million, representing a year-on-year increase of 378.02%, and the transaction amount accumulated to RMB118.023 billion, representing a year-on-year increase of 174.32%.

In 2016, the Bank launched a new version of mobile banking with breakthroughs and innovations in various aspects, including UI design, function display and operation system, which fully improved the convenience and usability for customers. With the implementation of the required project of integrating credit card account, debit card account with electronic banking account, the Bank managed to develop its mobile banking terminal into a cash management platform for customers step by step, thus achieving the one-stop management of credit card account, debit card account and electronic account of direct banking. The Bank also added new functions to the terminal, including contracted management of cards of other banks, cash sweep and purchase of direct banking products via mobile banking, making it a distinctive application.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.4 Distribution channels (Continued)

Direct banking

In 2016, The Bank ranked the first among peers in terms of the comprehensive strength of the Bank's direct banking "Hui Chang You Cai (徽常有财)". As of the end of December 2016, the total number of active direct banking customers of the Bank amounted to over one million. Total amount of wealth management products amounted to RMB3.982 billion, with accumulated transaction amount near RMB61.3 billion. In the 2016 Ranking List of Direct Banks in China published by China Internet Weekly under Chinese Academy of Sciences, the Bank ranked the 4th among various internet finance institutions in terms of the comprehensive strength in direct banking.

5.9.5 Subsidiaries and major companies in which the Bank has shareholding

Subsidiaries

Huiyin Financial Leasing Co., Ltd.

Registered in Hefei, Huiyin Financial Leasing Co., Ltd. ("Huiyin Financial Leasing"), a financial leasing company under the national banking system as approved by the CBRC, officially commenced its business on 30 April 2015 with a registered capital of RMB2,000 million. Huiyin Financial Leasing was jointly established by the Bank, Anhui Foreign Economic Construction (Group) Co., Ltd. and Materials Industry & Trade Company of China Tiesiju Civil Engineering Group Co., Ltd. The Bank contributed RMB1,020 million to the registered capital of Huiyin Financial Leasing, accounting for 51% of its shareholding.

The principal businesses of Huiyin Financial Leasing include: (1) financial leasing; (2) handling financial leasing assets as transferor or transferee; (3) fixed-income securities investment; (4) taking leasing deposits from lessees; (5) taking time deposits of three months or more from non-banking shareholders; (6) inter-bank lending; (7) borrowing loans from financial institutions; (8) off-shore borrowing; (9) sale and disposal of leased properties; (10) economic consultation (carrying out business activities within the business scope approved by the CBRC Anhui Office); and (11) other businesses approved by the CBRC.

Since opening, Huiyin Financial Leasing, under the philosophy of "setting example, laying foundation, seizing customers and innovating model", has set up a foothold in Anhui and is open to the national market. Huiyin Financial Leasing has actively expanded its business scope and customer resources, providing customers with professional and integrated financial leasing services. It adheres to the idea of stable business operation and sustainable development and strives to strike a balance among its business scale, speed, quality and efficiency. It promotes business scale expansion, strives to adjust the structure of its customers, products, businesses and income and persists in risk management so as to raise risk resilience. Huiyin Financial Leasing develops its resource advantage and improves its core competitiveness, creating competitive advantage for its medium-term and long-term development. As at the end of 2016, its total assets amounted to RMB18,821 million (which includes financial lease receivables amounting to RMB18,516 million); total liabilities amounted to RMB16,552 million; and net profits realized in 2016 amounted to RMB218 million, with a NPL ratio of zero. Each major operation indicator was in line with regulatory standards.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.5 Subsidiaries and major companies in which the Bank has shareholding (Continued)

Subsidiaries (Continued)

Jinzhai Huiyin Rural Bank Co., Ltd.

Registered in Jinzhai County of Liu'an City, Jinzhai Huiyin Rural Bank Co., Ltd. ("Jinzhai Huiyin") officially commenced its businesses on 28 June 2013 with a registered capital of RMB80 million. Jinzhai Huiyin was jointly established by the Bank and Anhui GuoYuan Investment Co., Ltd, along with other enterprises and individuals. The Bank contributed RMB32.80 million to the registered capital of Jinzhai Huiyin, accounting for 41% of the shareholding. The principal businesses of Jinzhai Huiyin include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) handling domestic settlements; (4) handling bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking card business; (7) issuing, redemption of and underwriting government bonds as agents; (8) acting as an agent in collection and payment and bank insurance business; and (9) other businesses approved by the banking regulatory authority under the State Council.

Since establishment, with the support from shareholders, Jinzhai Huiyin has upheld its original goal upon establishment. It set up a foothold in Jinzhai County and devoted itself to solving the "Three Dimensional Rural Issues" with a mission to promote comprehensive financial reform in the rural villages and accelerate the economic and social development in Jinzhai County. It has focused its business on agricultural credit, deposit growth, channel development, and risk prevention and control, which has produced good results of business development and received recognition from customers, local government and regulatory authorities. Following the establishment of the Nanxi sub-branch and Gubei sub-branch in 2014, it set up Qinshan and Meishan branches in Qinshan Town and the old town of Meishan Town, Jinzhai County in 2015, further expanding its outlet services coverage. As of the end of 2016, the total assets and total liabilities of Jinzhai Huiyin were RMB1,234 million and RMB1,125 million, respectively. Loans and deposits were RMB751.43 million and RMB1,095.36 million, respectively. In 2016, it recorded a net profit of RMB13.93 million and NPL ratio of 0%. Each major operation indicator was in line with regulatory standards.

Wuwei Huiyin Rural Bank Co., Ltd.

Registered in Wuwei County of Wuhu City, Wuwei Huiyin Rural Bank Co., Ltd. ("Wuwei Huiyin") commenced its businesses on 8 August 2010. Its registered capital was RMB100 million, to which the Bank contributed RMB40 million, accounting for 40% of the shareholding. Other major shareholders are local enterprises and individual shareholders in Wuwei. Its principal businesses include: (1) attracting deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) handling domestic settlements; (4) handling bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking business; (7) issuing, redemption of and underwriting government bonds as agents; (8) acting as an agent in collection and payment and bank insurance business; and (9) other businesses as approved by the banking regulatory authorities under the State Council.

Chapter V Management Discussion and Analysis

5.9 BUSINESS OPERATION (Continued)

5.9.5 Subsidiaries and major companies in which the Bank has shareholding (Continued)

Subsidiaries (Continued)

Wuwei Huiyin Rural Bank Co., Ltd. (Continued)

Since opening, Wuwei Huiyin has been adhering to Huishang Bank's operating philosophy. Unremittingly following the Scientific Outlook on Development, it supported the development of "Three Dimensional Rural Issues" economy, individual businesses and SMEs, with base in Wuwei and reliance on local villages and towns. In accordance with the operating philosophy of "close to the towns, serving Three Dimensional Rural Issues", Wuwei Huiyin translated its advantages in advanced corporate governance structure, sound internal control mechanism, leading managerial skills and strong brand influence into actions. Under the effective risk control mechanism, Wuwei Huiyin innovated in the variety, forms and operation processes of loans. It provided flexible, high quality and efficient financial services tailored for the customers relevant to "Three Dimensional Rural Issues". It also supported economic development in county area, extended services to the wider rural areas and provided intangible financial support to farmers' production and development. The sub-branch at Xiang'an was officially opened on 9 December 2015, which is the bank's fifth outlet in Wuwei County and also the bank's third rural sub-branch. As of the end of 2016, the bank's total assets and total liabilities were RMB3,053 million and RMB2,826 million, respectively. Deposits and Loans were RMB2,786 million and RMB1,576 million, respectively. In 2016, it recorded a net profit of RMB18.0003 million and NPL ratio of 0%. Each major operation indicator was in line with regulatory standards.

Major companies in which the Bank has shareholdings

Chery Huiyin Motor Finance Service Co., Ltd.

Chery Huiyin Motor Finance Service Co., Ltd. ("Chery Huiyin"), which was established on 13 April 2009, is China's first independent brand auto finance company, jointly set up by the Bank and Chery Automobile Co., Ltd. The company was registered in Wuhu City with a registered capital of RMB500 million, to which the Bank contributed RMB100 million, accounting for 20% of the shareholding, while Chery Automobile Co., Ltd. contributed RMB400 million, accounting for 80% of the shareholding. Pursuant to the 2011 annual general meeting resolutions, the company's registered capital was increased from RMB500 million to RMB1,000 million in January 2013, of which RMB167.70 million in shareholder dividends was converted to increased capital, and the remaining RMB332.30 million was paid in cash by the Bank and Chery Automobile Co., Ltd. in proportion to the original shareholding. In September 2013, it was unanimously agreed and resolved in writing by the shareholders that Chery Automobile Co., Ltd. would transfer its 31% stake in the company to Chery Holding Co., Ltd. (hereinafter referred to as "Chery Holding"). As of this day, the shareholding structure of Chery Huiyin Motor Finance Service Co., Ltd. is as follows: the Bank invested RMB200 million, accounting for 20% of its shareholding; Chery Automobile Co., Ltd. invested RMB490 million, accounting for 49% of its shareholding; and Chery Holding invested RMB310 million, accounting for 31% of its shareholding.

In 2014, the company completed its shareholding restructuring, and on 30 September 2014, the company name was changed from "Chery Huiyin Motor Finance Service Limited" to "Chery Huiyin Motor Finance Service Co., Ltd.". On 25 September 2014, the company's registered place was moved from Wanjiang Fortune Plaza, Jiujiang District, Wuhu City to Dianxin Avenue (Ankang Road) East, Shenxiang Town, Wuhu City, Anhui Province.

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5.9 BUSINESS OPERATION (Continued)

5.9.5 Subsidiaries and major companies in which the Bank has shareholding (Continued)

Major companies in which the Bank has shareholdings (Continued)

Chery Huiyin Motor Finance Service Co., Ltd. (Continued)

Approved by the CBRC, the company's principal businesses include: (1) accepting time deposits of three months or more from domestic shareholders; (2) accepting loan security deposits for the purchase of vehicles from auto dealers and car rental deposits from lessees; (3) upon approval, issuing financial bonds; (4) engaging in inter-bank lending; (5) obtaining loans from financial institutions; (6) providing auto loans; (7) providing auto loans to auto dealers for the purchase of vehicles and loans for operating facilities, including showroom construction loans and spare parts and maintenance equipment loans; (8) providing auto financing and leasing businesses (excluding leaseback); (9) selling or repurchasing auto loan receivables and auto financing lease receivables to financial institutions; (10) handling the sale and disposal of rental car for residual value; (11) engaging in consulting and agency businesses regarding auto financing; and (12) subject to approval, engaging in equity investment of financial institution regarding auto finance.

5.10 RISK MANAGEMENT

In 2016, the Bank actively reviewed and responded to the macro financial situation and policy changes. Based on the annual risk preference and risk management policies and with adherence to the risk management concept of "prudence, rationality and stability", the Bank steadily promoted the comprehensive risk management system. By consistently optimizing its risk management structure, policy, procedures and upgrading its risk management tools in balancing "capital, risk and profit", the Bank satisfactorily maintained the quality of the Bank's assets and continuously kept the regulatory indicators and overall risk condition stable in the complicated economic situation.

5.10.1 Credit risk management

Credit risk represents the risk of financial loss suffered by the Bank due to the failure on the part of a debtor or counterparty to meet its obligations or commitment to the Bank. The Bank's credit risk primarily comes from loan business, acceptance business, investment business as well as on and off-balance sheet business.

In 2016, in view of increasing pressure on the management and control of credit risk due to the complicated economic situation, and guided by comprehensive risk management and focused on maintaining asset quality, the Bank continued to strengthen its credit risk management and control through deepening the construction of risk pre-warning tools and application of credit limits and carrying out comprehensive risk examination and on-site inspection and supervision. The Bank strengthened its risk alert and exit mechanism, continued to strengthen industry analysis and refine credit assessment standards, dynamically monitored and warned in advance against industries with excess capacity such as real estate, coal, coal trade as well as key industries such as wholesale and retail industries. The Bank strictly prevented external risk exposures such as guarantee circle and trade financing. Besides, the Bank strictly implemented the national industrial and environmental protection policies on overcapacity industries. The Bank also continued to strengthen its ability to design risk mitigation measures for credit approval, improved the method of credit availability and optimized the credit structure. The Bank proactively mitigated potential risks by strengthening its follow-up management for loans with significant risks, setting up a watch list of debtors for dynamic management, and formulating solutions for loans with potential risks on a "one-customer-one-policy" basis. In addition, the Bank spared greater efforts in the collection of NPLs, with an aim to dispose of non-performing assets through different channels and ways, enhanced the liquidity inventory assets and optimized the credit structure. During the reporting period, the Bank's NPL balance had increased due to the impact of domestic economic downturn. However, through implementing a number of measures while reducing old loans and controlling new loans, asset quality has been under control. Please refer to 5.4 "Loan Quality Analysis" in this annual report for the distribution structure.

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5.10 RISK MANAGEMENT (Continued)

5.10.2 Market risk management

Market risk is the risk caused by changes in interest rates, foreign exchange rates and other market factors. The Bank is committed to managing potential market losses and providing earning stability within reasonably tolerable range by independently identifying, assessing and monitoring inherent market risk existing in the ordinary course of business. The Bank's market risk management covers the whole process of identification, measurement, control and reporting of market risk. It measures and monitors market risk through the use of sensitivity analysis, exposure analysis, gap analysis, duration analysis, stress testing and VAR analysis, etc.

In 2016, in light of complex and volatile external environment, the Bank strived to enhance market risk management tools, further rationalized market risk management processes and optimized capital business risk management system. In order to achieve better daily market risk management, the Bank adopted a variety of tools and methods such as cash flow analysis, sensitivity analysis, scenario analysis, VAR analysis and stress testing to conduct quantitative analysis on capital investments. The Bank enhanced market risk quota management, conducted stress testing on interest rate risk of transaction accounts and further improved its capacity in quantifying and managing market risk so as to avoid market risk effectively.

5.10.3 Operational risk management

Operational risk refers to the risk of loss arising from deficient or problematic internal procedures, personnel, IT systems and external events. The Bank's operational risk management is oriented to the spirit of regulatory authorities. The Bank has established an appropriate operational risk management system which corresponds to its business nature, scale and complexity. The Bank has established a series of complete management processes and has adopted appropriate measurement methods to measure operational risk, which have continued to improve.

With regards to its organizational structure, the Bank established a three-level risk management structure based on the head office, branches and the sub-branches. With regards to its management process, the Bank established a complete management cycle covering the links of operational risk identification, evaluation, monitoring, control/mitigation, reporting and supervision/assessment as well as a system of operational risk management processes relying on information systems.

The Bank actively improved the regulatory framework for operational risk management and optimized operational risk management system. The Bank promoted the projects under the operational risk management system, explored and implemented three major tools of operational risk management, and furthered the sophistication of operational risk management. The Bank conducted regular monitoring, alerting and reporting of key risk indicators for operational risk and composed case studies on typical operational risks so as to raise the staff's awareness of risk prevention. In addition, the Bank further strengthened information technology risk management, regularly carried out information technology special assessment and ensured secure and continuous operation of information technology system.

At present, the Bank is facing multiple challenges in its operational risk management. The Bank will continue to follow through risk appetite, further prevent and reduce operational risk losses through multiple channels in accordance with the Bank's comprehensive risk management policy.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.4 Liquidity risk management

Liquidity risk refers to the risk that the Bank is unable to satisfy its customers' needs for repayment of liabilities due, new loans and reasonable financing, or to satisfy these needs at a reasonable cost. The Risk Management Committee under the Board of the Bank and the Assets and Liabilities Management Committee and the Risk and Internal Control Management Committee under the senior management assume joint responsibilities for formulating policies and strategies on overall liquidity risk management. The Assets and Liabilities Management Department of the Head Office is the leading executive department of liquidity management for the Bank. The Risk Management Department, the Financial Market Department, the Financial Industry Department and the International Business Department, as major supporting departments, are responsible for overall implementation of various tasks as required by the Assets and Liabilities Management Committee.

The Bank's liquidity risk management aims at ensuring that the Bank shall have sufficient funds to meet both expected and unexpected capital requirements (including loan growth, deposit withdrawal, debt maturity, and changes in off-balance sheet irrevocable commitments) in its normal operating environment or under pressure and to create a stable liquidity environment for ongoing operations, thus fostering positive interactions between liquidity management and business development. With adherence to the principles of stability, prudence and rationality for liquidity risk management, the Bank makes reasonable adjustments to the size and structure of assets and liabilities based on changes in market conditions and its needs for business development. On the premise of ensuring liquidity, the Bank strives to pursue profit growth and value growth to achieve unity in the "liquidity, safety and profitability" of bank funds.

In 2016, the Bank further enhanced the sophistication of liquidity management whilst closely monitoring pressures in liquidity management from changes in economic and financial situations. Firstly, it sustained coordinated development of asset and liability businesses, dynamically adjusted its liquidity management strategies and capital operation tempo; secondly, it strengthened liquidity indicator management, improved liquidity risk identification, monitoring and measurement, and improved liquidity risk management ability; thirdly, it strengthened liquidity emergency management, developed liquidity stress scenarios to ensure that there would be no liquidity risk in any stress scenarios or within the prescribed shortest survival period. Meanwhile, the Bank also formulated contingency plans to prevent potential liquidity crisis and take effective measures to control risk spreading in liquidity crisis scenarios. As at the end of the reporting period, the liquidity coverage ratio of the Bank was 102.39%, while the qualified liquidity assets and net cash outflow in the next 30 days were RMB63.852 billion and RMB62.362 billion, respectively.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.5 Interest rate risk management

Interest rate risk refers to the risk of fluctuation in interest rates which results in adverse impact on the financial position of the Bank. Interest rate risk of the Bank primarily arises from the structural mismatch of maturity dates or re-pricing periods for our banking portfolio. Such structural mismatch of durations may cause the Bank's net interest income to be affected by changes in the prevailing interest rate. In addition, different pricing benchmarks for different products may also lead to interest rate risk for our assets and liabilities within the same re-pricing period. Currently, the Bank primarily assesses its exposure to interest rate risk through gap analysis, sensitivity analysis and duration analysis. The Bank manages its interest rate risk exposure primarily by adjusting the duration profile of our banking portfolio based on its assessment of potential changes in the interest rate environment.

The Bank's financial assets and liabilities are mainly denominated in RMB. As the benchmark interest rates for RMB deposits and loans are determined by the PBOC, the Bank follows the interest rate policies promulgated by the PBOC when carrying out deposit taking and lending activities.

In 2016, the Bank further promoted its in-depth strategic transformation, proactively coped with interest rate liberalization and increased its efforts in optimizing asset-liability structure and customer base structure. Firstly, the Bank actively optimized its loan structure to accelerate business development of retail and small-micro enterprises. Secondly, the Bank proactively strengthened its loan pricing management with the aim of improving its risk pricing capability and return on loans. Thirdly, the Bank further promoted the rapid development of its intermediary business, optimized its income structure and reduced its reliance on interest spread between deposits and loans. Fourthly, the Bank strengthened the analysis of customers' overall contribution using data from management accounting, so as to effectively improve pricing management.

5.10.6 Exchange rate risk management

Exchange rate risk is the risk of loss in the Bank's earnings arising from the duration mismatch of over-bought and over-sold current or forward positions in a particular foreign currency and non-RMB denominated asset and liability due to adverse changes in exchange rate. The Bank's foreign currency assets and liabilities are mainly denominated in U.S. dollars, while the rest are denominated in Euros, Hong Kong dollars and Japanese yen.

The Bank measured its exchange rate risk through qualitative and quantitative analyses. The major methods included gap analysis, duration analysis, exposure analysis, sensitivity analysis, scenario analysis, VAR analysis, stress testing and post-inspection. In order to maintain its exchange rate risk within an acceptable range, the Bank implemented stringent limit-based management measures, primarily including trading limits, risk limits, foreign exposure limits and stop loss limits.

The spot and forward foreign exchange transactions of the Bank are mainly transactions conducted on behalf of customers. They are effected by way of "back-to-back" square trading that avoids exchange rate risk to a large extent. Under the new normal of bilateral exchange rate fluctuations of RMB, the Bank will maintain reasonable proprietary position exposures in line with the Bank's limit-based management within the limit of combined exposures approved by the State Administration of Foreign Exchange. In addition, the Bank proactively utilized derivatives to prevent exchange rate risk.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.7 Reputation risk management

In 2016, the Bank effectively managed its reputation risk. There is no reputation risk incident occurred throughout the year. The Bank maintained a good relationship with the media, and the media provided favorable overall feedback. There were also frequent exchanges with the media, where no negative public opinion was found.

To control reputation risk, the Bank paid attention to the promotional effect of positive reports externally, and strengthened its reputation risk management internally. To deal with misleading information, the Bank responded quickly, communicated proactively, had a regard for facts and the freedom of the media. The Bank established positive interaction with the media, and effectively avoided reputational risk that may occur.

Going forward, the Bank will focus on enhancing the techniques of directing external public opinion, integrating the resources invested in the media and fostering the culture of reputation risk prevention. It will also strive to increase the brand fame and reputation of the Bank through high-level public relations planning.

5.10.8 Compliance risk management

Compliance risk refers to the risks of commercial banks may be subject to legal sanctions, regulatory punishments, major financial losses, or reputation damage as a result of any violation of laws and regulations, rules and criteria.

The Board of Directors of the Bank takes ultimate responsibility for compliance of the Bank's operation activities. The Risk Management Committee under the Board of Directors monitors compliance risk management effectively. The Board of Supervisors is responsible for supervising the performance by the Board of Directors and the senior management of their duties on compliance management. The senior management is responsible for managing compliance risk and submitting compliance risk management reports to the Board annually. The Bank has established a robust compliance risk management system and organizational structure, forming three defense lines at front, middle and back offices interactive with each other, and the vertical double-line reporting system amongst the head office, branches and sub-branches. It became able to constantly improve the compliance risk management mechanism as well as the risk management techniques and procedures so as to ensure effective management of compliance risk.

During the reporting period, with the focus on its business development strategies, the Bank strived to put internal control as its priority, established the philosophy of "facilitating development through compliance", with an aim to enhance the foresight and pertinence of compliance management. The Bank constantly implemented various requirements of external regulatory authorities, and strengthened the establishment of internal control system. Hence, the compliance risk management mechanism operated effectively, with favorable comments coming from external regulatory authorities. The Bank launched special activities such as the "Review of Internal Control and External Supervision Enhancements & Irregular Operation and Crime Containments" and the "Better Management Year" in depth to actively promote the establishment of compliance culture, and continued to improve its internal rules and regulations, optimize the compliance risk identification and assessment process, strengthen accountability system for non-compliance, and increase the support for legal compliance review and product innovation, thereby offering protection for the operation of the Bank in compliance with laws.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.9 Anti-money laundering management

The Bank attached great importance to anti-money laundering and strictly implemented relevant laws and regulations aiming at preventing and controlling money laundering activities, with sound measures vigorously carried out across the Bank.

During the reporting period, the Bank has enhanced its customers' identity identification mechanism. It proactively promoted the new mode of "listening, observing, checking and asking" in customers' identity identification and guided its employees to pay more attention to customers' unreasonable or other suspicious circumstances based on "checking", "understanding", "registration", "preserving" and "examination" for identification of customers' identity, so as to police the customer access threshold. The Bank has also innovated in the money laundering risk investigation mechanism. The Bank made timely adjustments to the monitoring of suspicious funds, compiled customer watch list and organized the investigation of money laundering risks in accordance with changes in money-laundering risks. Customers' identities, wealth, business operations and financial conditions were analyzed with reference to customers' trading background, fund flow and capital chain and suspicious transactions were identified for reporting. Meanwhile, the Bank has strengthened the management and control mechanism of money laundering. Risk control measures such as continuous monitoring, periodic review, re-identification of customer identity, setting trading limits and closing online bank transfer functions were implemented according to different circumstances to build strong firewalls against money laundering risks.

In 2016, the Bank introduced innovative publicity methods concerning anti-money laundering by emphasizing both the forms and effects of publicity in an organic combination. Firstly, it took outlets as the foothold for publicity. Centering on the annual publicity theme, the Bank carried out customer-oriented anti-money laundering campaigns in multiple ways, including placing publicity materials, running rolling captions on electronic screens and putting up posters at its business outlets. Besides, the outlets equipped with the LED panel played animated promotional videos about anti-money laundering in a continuous loop to raise the public awareness of anti-money laundering laws and regulations. Secondly, the Bank expanded the scope of its outdoor publicity. It actively held anti-money laundering campaigns at city squares, villages, towns and schools to explain anti-money laundering cases and import anti-money laundering knowledge to passers-by, which was attractive and was well received by them. Thirdly, the Bank adopted innovative and special publicity of anti-money laundering. The coverage of the publicity was expanded and the publicity effect was enhanced, in ways closer linked to daily life and more acceptable by the public. For example, the Bank launched an anti-money laundering column on its WeChat service account; warned the public about online money laundering traps via protective wallpapers displayed on the screens of its self-service machines, SMS for mobile phones, eqxiu webpage on WeChat, and spread the anti-money laundering knowledge to the public in plain and easy-to-understand language through face-to-face communication with customers by its specially-designed robot named "Little Man". It composed and produced a scene play named "War without Gunfire" where anti-money laundering knowledge was integrated into an entertainment program by true-to-reality and lifelike performance. The Bank also organized customers to popularize the anti-money laundering knowledge on foot at gymnastics squares, which was made into a short promotional video aired through the regional business TV channel, receiving wide acclaim.

Chapter V Management Discussion and Analysis

5.10 RISK MANAGEMENT (Continued)

5.10.9 Anti-money laundering management (Continued)

The Bank took an active part in the anti-money laundering contests held by the PBOC, for which it eagerly carried out various pre-contest preparations including sorting out anti-money laundering knowledge, arranging intensive trainings for the participants and holding mock exercises on the spot, and therefore it obtained prominent results. For example, in a thematic essay contest to mark the tenth anniversary of Anti-Money Laundering Law held in Anhui Province, five essays of the Bank including Keeping Responsibilities in Mind and Taking Actions in Earnestness, Cutting Off Illicit Money and Defend the Royal Path – Anti-Money Laundering stood out and became award-winners. Its Anqing Branch and Ma'anshan Branch captured the team gold prize in a contest of anti-money laundering knowledge held by the local branches of PBOC. Its Xuancheng Branch won the champion in a contest of anti-money laundering jargons held by the local branch of the PBOC. Its Huaibei Branch was honored with the award of Best Form of Presentation in a contest of creative micro anti-money laundering publicity in Huaibei City. And, its Bozhou Branch won the best impression award in the results gallery of anti-money laundering in Bozhou City.

Currently, the international economic and financial landscapes are complicated and ever changing. Ways and means of money laundering are becoming more covert and diverse. As a result, anti-money laundering work is facing increasingly grave tests. The Bank will uphold the working methods of "taking risk as orientation, customer as focus, process control as protection" and actively build an anti-money laundering risk control system up to the standards for listed banks to continuously improve the level of anti-money laundering compliance throughout the Bank.

5.10.10 Implementation of basel accord

The Bank is one of the earliest city commercial banks in China devoting itself to the implementation of the Basel New Capital Accord. With the measurements of the three main risks under the first pillar as the main theme, the Bank gradually promoted the development and application of the advanced methods for capital measurement in accordance with the requirements of the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) and other regulatory policies. Currently, the Bank has established a non-retail credit risk internal grading system for customers and a non-retail credit risk internal grading system for debts; the retail credit risk internal grading system has been completed, and is now applying in consumer credit. Having completed business consultation for the standards of operational risk management, the Bank is planning to establish a system of such standards. The Bank is vigorously promoting the establishment of internal modeling of market risks which is on the track of getting approval.

Chapter V Management Discussion and Analysis

5.11 INFORMATION TECHNOLOGY

In 2016, the information technology work was guided by the principle of “guarantee, services, lead” and focused on goals to construct four service brands including “comprehensive finance, inclusive finance, intelligent finance and safe finance” to guarantee operation, control risk, promote development and enhance ability. The Bank has constantly enhanced its fundamental protections, strengthened its risk control, and refined its operation and management. The Bank’s information system continued to operate securely and stably, which supported and facilitated the Bank’s business development.

Firstly, the Bank improved the governance of information technology. It added new management teams, enlarged the number of management staff and technicians, and propelled the standardized and normalized management processes of system development and operating maintenance on all fronts. It also passed the international standards of IT service management (ISO20000) and the International Capability Maturity Model Integration Level 3 (CMMI3). The Bank’s governance of information technology was further improved and its level of information technology management was significantly promoted.

Secondly, the Bank refined the construction and management of information technology. It adopted new technologies such as cloud computing and cloud storage reasonably and promoted the systems of operation monitoring, operating maintenance security and network support. The Bank also propelled the construction of new data centers for production and disaster recovery centers at the head office, special bases in local cities and conducted migration of core mainframes. These efforts helped better support the development of comprehensive finance, inclusive finance, intelligent finance and safe finance and further raised the level of operating security and ability in service support of its information technology.

Thirdly, the Bank optimized the construction and management of platform system. It implemented the Five Year Plan of IT Development to make things more “data-sensitive, collaborative, mobile and intelligent”. It established and improved various payment channels of Internet finance and technology platforms of big data, and took great efforts to construct and launch new core projects, application set for major capital management programs, application set for transaction banking and mobile platform for retail banking. Therefore, all the businesses of the Bank developed with stronger support and impetus.

Fourthly, the Bank advanced the system of information technology safety and security. It upgraded and reworked the basic safety management system, built the bank-wide system of basic ambience risk detection and warning and constructed the platform for visualized operating maintenance analyses and real-time transaction risk control based on big data. It also carried out safety examinations of information technology across the Bank, constantly facilitated the systematic risk assessment of key information and the risk management of information technology outsourcing. Therefore, its system of information technology risk prevention was improved and its level of information technology safety management was promoted.

Chapter V Management Discussion and Analysis

5.12 SOCIAL RESPONSIBILITIES

In 2016, the Bank adhered to its mission of “commitment to civic responsibility” to serve the local economy. The Bank has been promoting the innovation of financial products to satisfy the various financial needs of its customers. In addition, the Bank continued to improve its customer service and customers’ experience and strived to create four financial service brands of “comprehensive finance, inclusive finance, intelligent finance and safe finance”. During the reporting period, the Bank took full advantage of its strengths in the regime, mechanism and system, especially the advantage as a first-class legal entity, to provide comprehensive financial services, strengthen the contact with all levels of governments, deepen the penetration to the local economy and promote the substantial development of PPP (Public-Private-Partnership) model. The Bank continued to facilitate the establishment of pilot programs of inclusive financial system and set up a rural financial service system integrating “Huinong sub-branch, Huinong Services Room, Huinong Card, Huinong Loan, Huinong Tong and Huinong Bao”. The Bank actively explored a microcredit model to provide comprehensive professional financial services to micro, small and medium enterprises. The Bank continued to renew traditional outlets with intelligent technologies, develop direct banking business and build a personal financial service platform. The Bank also kept problem-oriented thinking, assigned responsibilities to dedicated persons and highlighted the key points that need extra attention, so as to strengthen proactive risk control and enhance its ability to tackle with risks. Moreover, the Bank sought to solve serious problems on the basis of the current situation and build its risk management system from the long-term perspective, to ensure that the overall risks are within a controllable range and secure the Bank’s development through transformation and upgrade. Besides, it also continuously reinforced the regulating role of green credit as a lever and actively promoted green credit to support low-carbon economy. The Bank advanced information technology jointly with financial services, and improved green services by means of expanding electronic banking and promoting online services, striving to offer more efficient and environmentally friendly financial services to customers. Through the active participation in the energy conservation and emission reduction action nationwide, the Bank promoted the mode of green operation. The Bank also strengthened its team building by promoting talent cultivation in different tiers, improving organizational structure and establishing a performance evaluation mechanism.

Meanwhile, ready to take initiatives and shoulder its responsibilities, the Bank formulated and implemented the annual social and public welfare scheme and proactively conducted social and public welfare undertakings and charitable activities such as donations and scholarships with love and care, so as to earnestly fulfill its corporate social responsibilities. In 2016, the Bank contributed RMB3 million to the Women’s Federation in Anhui Province to jointly implement the “2016 Public Welfare Program of Huishang Bank – Love over the Yangtze-Huaihe Area”. In the program, the Bank would help 200 poor female college students and 100 outstanding women suffering economic hardship to solve the difficulties in their studies and daily life, and provide assistance and support to 20 specialty cooperatives established by “Girls from Anhui Province” and e-commerce enterprises and bases set up by “Girls from Anhui Province”. In line with its business features and advantages in the operation processes, the Bank designed and developed a business start-up loan called “Start-up Loan for Girls from Anhui Province” to offer credit funds and favorable policies to the women during business startups and their start-up projects that were in compliance with national industrial and credit policies.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES

5.13.1 Trend of economic development

1. *Global economy*

The year 2017 will witness continuing modest growth in the global economy. On the supply side of the economic growth, the factors such as population aging, descending labor productivity, tightened constraints on finance and regulation and inadequate groundbreaking advancements in science and technology, will continue to depress the growth of global economy in the medium and long term. On the demand side, the positive and negative forces interweaved will refrain the accelerated growth of the global economy. Firstly, benefiting from the new policies of infrastructure construction, reviving the manufacturing industry and tax reduction, the economy of the United States is likely to experience faster growth, but uncertainties will arise in the meanwhile due to Trump's inclination towards trade protection and anti-immigration. Secondly, major economies generally have easing monetary policies in place, and financial policies are also likely to contribute to the further growth. However, the Federal Reserve is accelerating the normalization of monetary policies, which has caused changes in the liquidity worldwide, intensified the volatility of the financial market, and hindered the recovery of the real economy. Thirdly, emerging economies like China, India and Indonesia in the Asia Pacific, are expected to grow at a relatively high speed, and will remain to be the core strengths supporting the stable growth of the global economy, especially the continuous advancement of the investment and construction activities in the "One Belt, One Road" region, which will become a strong driver for the growth of the demand worldwide.

2. *Economic development trend in China*

The year 2017 is a year of great significance for the implementation of the "13th Five-Year Plan", and the economy will present the main features of "middle to high growth, optimized structure, new drivers, easing financial policies, prudent monetary policies and various challenges" during operation in the coming year. Under the new normal of the economy, middle to high growth will be experienced along with the accelerated switch of old drivers to new drivers and old modes to new modes, which will be reflected in various aspects such as industrial structure adjustment and resident consumption upgrade. It will be the main theme of the economic structure to further the supply-side structural reform, moderately expand the overall demand, facilitate development driven by innovation, put more efforts in cutting overcapacity, destocking, deleveraging, reducing costs and identifying growth areas, strive to revive the real economy, and cultivate and strengthen new growth drivers. In a relatively long period of time in the future, investment will remain as an important driver for the economic growth, and during the optimization and adjustment of the economic structure and the cultivation of new drivers for the economic growth, traditional industries will be renovated and upgraded, new strategic industries will emerge gradually, and consumption upgrade will be furthered steadily. Monetary policies will be tightened; liquidity may continue to keep a periodical tight balance and capital cost may also rise. Financial policies will remain positive, and the Ministry of Finance is also actively propelling the optimization of the supporting policies for PPP, as a result of which, PPP projects will need much shorter time to be implemented, thus giving play to the leverage and the incentive effect of positive financial policies on the economy.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES (Continued)

5.13.1 Trend of economic development (Continued)

3. *Opportunities and challenges*

China is currently encountering the impact of the new economy and the new technical revolution, and the fundamental structure of the traditional financial industry is undergoing profound changes. The new economy is in the womb of time, and the new technological revolution marked by cloud computing, big data, Internet of Things and intelligent progress has changed the social life in all aspects, and affected the mode of social production and people's lifestyle. The operation mode of the traditional financial industry has been impacted, with financial boundaries becoming increasingly ambiguous and financial risks becoming increasingly complicated, and various new financial ecosystems, financial service modes and financial products emerge in an endless stream, as a result of which, the traditional financial industry has entered a new revolutionary era – the era of new finance. Under such background, the Bank will face new market opportunities, but will also face new challenges in respect of product system, business mode and management level.

5.13.2 Measures of the Bank

1. *Strategic plan*

The Bank will keep in line with the development trend, strive to survive in the intense competition and develop through innovation, take risks to innovate and embrace the change, and spare no effort to make various outstanding achievements on financial reform and innovation, thus laying a solid foundation for it to adapt to the new economy and welcome the new finance. In practice, the Bank will focus on the development of comprehensive finance to satisfy the diversified financial needs of the customers and propel innovation in all aspects; develop inclusive finance to expand the range of customers for banking services, thus laying a solid foundation for the sustainable development of the Bank; develop intelligent finance to adapt to the changes in the mode of social production and people's lifestyle and generate a financial ecosystem covering the whole industrial chain; and develop safe finance as the essence of a bank to consolidate the foundation of the Bank. In addition, the Bank will continue to build the structure of "one body and two wings" for the new finance, where "one body" refers to the comprehensive finance and inclusive finance that cover the main part of the customer base; one of the "two wings" refers to the intelligent finance that penetrates all the businesses and the whole process, and the other refers to the safe finance that ensures the safety and stability of the operation overall, providing a strong support as a whole for the development of all the businesses of the Bank.

Chapter V Management Discussion and Analysis

5.13 PROSPECTS AND MEASURES (Continued)

5.13.2 Measures of the Bank (Continued)

2. *To adjust customer structure*

The Bank will adjust the traditional customer structure continuously and expand service offerings actively to strive for a customer structure consisting of balanced proportions of large, medium, small and micro-sized customers. Looking forward, the Bank will make adjustments mainly in the following aspects: firstly, in respect of the type of customers, the Bank will strengthen the retail customer base on the basis of consolidating the advantages in terms of corporate customers; secondly, in respect of the geographical distribution of the customers, the Bank will extend its reach from cities to rural areas, and exert more efforts in exploring the customers in the regions where there is a great potential for economic development, strong agglomerative effect and a high level of urbanization; thirdly, in respect of the size of the customers, the Bank will focus on exploring medium and small corporate customers, intermediary retail customers and expanding cooperative peers on the basis of consolidating the customer base of governmental entities and other large and medium-sized enterprises, in order to extend its reach from governments and large corporate customers to medium and micro-sized customers; and fourthly, in respect of the industries of the customers, the Bank will gradually adjust the proportion of the customers in industries with excess capacity and traditional industries, and provide more support to new strategic industries and areas closely associated with people's livelihood such as science, education, culture and health care, to expand its customer base to emerging industries, high-end manufacturing industries and modern service industries.

3. *To promote innovation in products and channels*

To enhance innovation in the businesses and products targeting corporate customers. In order to fulfill the financing-related demands of the government, the Bank will establish a PPP parent fund at provincial level through the cooperation with direct provincial units and innovate to meet the financial demands of new governmental projects. Based on three rights of beneficial right, charge right, and revenue right, the Bank brought innovations to asset management schemes and ABS products, in order to revitalize government stock assets. In order to meet the financial needs of enterprises, the Bank will promote structural financing businesses including "profit-making" development funds, chain funds for small and medium enterprises and listing plans for small and medium enterprises, promoted credit asset securitization and enterprise asset securitization business; focus on de-leveraging, de-capacity, de-inventory of enterprises, explore innovative businesses including perpetual bond issuances, mergers and acquisitions and real estate investment trusts (REITs), conduct capital regulatory business by focusing on enterprise bonds, corporate bonds, private placement bonds and IPOs, and provide new types of financial services including special account entrusted investment management or investment advisory by focusing on small and medium financial institutions.

To propel the channel construction for retail businesses. The Bank will build an inclusive finance on-line service channel, and enhance marketing and brand marketing; improve customer experience and the efficiency of financial services through the outlet upgrade with intelligent technology; promote network construction of comprehensive sub-branches, Huinong sub-branches, Huimin sub-branches, establish Huinong financial services rooms, seize the retail markets in county areas, and increase the share in the savings market in county areas; build an innovative consumption loan platform, spare no efforts to expand online and offline credit card issuance channels, expand consumer finance areas, develop a microloan services platform, focus on key industries, and expand microloan business group customer channels; integrate retail customer service channels including bank cards, direct banking, mobile banking, satisfy customer financial services demands on mobile terminals and build a mobile platform for personal financial services.

Chapter VI Report of the Board of Directors

The Bank presents the annual report and audited financial statements of the Bank and its subsidiaries for the year ended 31 December 2016.

6.1 PRINCIPAL BUSINESS

The Bank's principal activities in the PRC include the taking of deposits from corporate and retail customers, the granting of loans using the deposits received, and the conducting of capital business, which includes money market activities, investment and trading activities and transactions on behalf of customers.

6.2 PARTICULARS OF BUSINESS

6.2.1 External environment faced by and business and operation development of the Bank

1. *Analysis of environment of our main operating environment*

In 2016, the Bank bore in mind its mission, followed trends, seized opportunities, and actively integrated itself into the economic and social development of Anhui and Jiangsu provinces, realizing high speed growth in the major indicators, basically achieving the levels of middle level banks. At present, the macro and regional economic environment is experiencing in-depth changes and the external development environment faced by the bank is experiencing complex changes, which are mainly in the following aspects:

Firstly, the economy has been growing steadily and fast. For the main operating area – Anhui, in 2016, its GDP recorded RMB2,411.79 billion, representing a year-on-year increase of 8.7% with the growth rate remaining unchanged as compared to the last year. Such growth was 2 percentage points higher than the national average growth, ranking No. 6 across China and No. 2 in the central area. Stable economy growth has provided a solid foundation for the continuous sound operation of the Bank.

Secondly, structural adjustment and optimization has been undergoing. Industrial structure has been gradually optimized, and the service industry's output as a percentage of total output has increased by 1.9 percentage points. As industrial structure has been increasingly improved, among above-set-scale industries, the growth rate of added value of the equipment manufacturing industry has increased by 1.8 percentage points as compared to the last year, with the proportion of added value increasing by 1.5 percentage points. The growth rate of added value of the high-tech industry has increased by 4.9 percentage points as compared to the last year, with the proportion of added value increasing by 2.9 percentage points. The proportion of added value of six high energy-consuming industries was 0.3 percentage point lower than that of the last year. With the continuous adjustment of investment structure, among fixed assets investments, the growth rate of investments in the service industry recorded 2.9 percentage points higher as compared to the last year, with the contribution of investment amount accounting for 0.9 percentage point higher than that of the last year. The continuous optimization of the economic structure is conducive to the structural optimization and adjustment of the Bank's assets, and will also drive the Bank's innovative business model to meet the changing customer demands.

Thirdly, the development of new momentum has sped up. New entities and new achievements have increased rapidly with 194,000 newly registered enterprises on an annual basis, representing an increase of 30%. The number of new above-set-scale industrial enterprises and service enterprises was 2,560 and 632, representing an increase of 15.2% and 19.1% respectively. 964 enterprises were newly recognized as high-tech enterprises, with authorized invention patents reaching 15,300, representing an increase of 36.8%. The surging emergence of new entities and new achievements is conducive to the further consolidation of the Bank's customer base and expansion of its business scope.

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6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

2. Business performance of the Bank in 2016

In 2016, facing the "new economy" wave, the Bank, on the basis of analyzing the general trend of economic and social development, the development trend of the industry and the development situation of the Bank, has put forward the financial framework consisting of "comprehensive finance, inclusive finance, intelligent finance and safe finance" to build a New Finance model and serve the new economy.

(1) Effective comprehensive finance

Aiming to meet the needs of corporate customers in the new situation, the Bank has innovatively launched urbanization funds, industry funds, profit-making funds and other fund businesses, optimized internal coordination, integrated various resources inside and outside the Bank, improved ability to absorb customers and maintain customer loyalty, further deepened the cooperation between the Bank and the government and enterprises, coordinated the wholesale business advantages of the municipal government and government institutions, and promoted the transformation and upgrade of corporate business.

(2) Promoting inclusive finance

Actively responding to the national policy of finance benefiting people, the Bank implemented an inclusive finance development strategy. Focusing on "innovation driven" and "management improvement", the Bank made great efforts to promote channel innovation, product innovation, system innovation and management enhancement. It constructed an inclusive urban financial system of urban comprehensive sub-branch, community sub-branch and micro-sub-branch, connecting the "last mile" in resident financial services in urban area, thereby satisfying the diversified financial needs of urban residents. It also built a rural inclusive financial brand system covering six major products and channels of "Huinong sub-branch, Huinong Services Room, Huinong Card, Huinong Loan, Huinong Bao and Huinong Tong", and seized the county and rural financial markets. It promoted pilot reforms on professional operating modes for small enterprises, established the micro loan business division, and actively explored a microcredit model.

(3) Intelligent finance initially maintained its advantage

Following technological progress, the Bank promoted the innovation and use of new service terminals and convenience tools, fully optimized various services including online banking, mobile banking and WeChat banking and innovated a direct banking management system. In accordance with the operational ideology of "getting client from the outside, keeping clients on the inside", the Bank continued to improve its platform structure and product system, and actively explored a direct banking commercial mode and profit mode. In the various rankings in 2016, the direct banking of the Bank maintained top 4 amongst nearly 40 banks engaging in direct banking business across China, and won numerous awards including the "2016 Best Brand Award for Internet Finance", the "2016 Best Direct Banking Function Award" and the "2016 City Commercial Bank for Internet Business Innovation".

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6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

2. **Business performance of the Bank in 2016** (Continued)

(4) *Implementation of safe finance was in place*

The Bank established a safe finance philosophy to strengthen and improve the risk assessment accountability mechanism, conducted comprehensive risk investigation, which includes establishing all kinds of ledgers, implementing incentive measures, strictly investigating breaches and violations, adhering to the "zero tolerance" principle against all kinds of risk events and strengthening the management of employee ethics.

3. **Analysis of key financial performance indicators during the year**

See details in Chapter II "Summary of Accounting Data and Business Data" in this annual report.

4. **Environmental policy, performance and compliance of laws and regulations**

(1) *Environmental policy and performance of the Bank*

See details in section 5.12 "Management Discussion and Analysis – Social Responsibilities" in this annual report.

(2) *Compliance of laws and regulations of the Bank*

The Bank actively carried out anti-money laundering management, and prevented anti-money laundering activities. Firstly, it stepped up its efforts in implementing its internal control system including the "Huishang Bank Anti-money Laundering Management Measures" and "Huishang Bank Customer Anti-money Laundering Risk Class Management Requirements", enhancing the system foundation for anti-money laundering. Secondly, it promoted customer identification measures, and policed the customer access threshold. Thirdly, it carried out an anti-money laundering training campaign, promoted anti-money laundering laws, regulations and internal control system at different levels, effectively improving the responsibility awareness and business skills of the staff.

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6.2 PARTICULARS OF BUSINESS (Continued)

6.2.1 External environment faced by and business and operation development of the Bank (Continued)

4. Environmental policy, performance and compliance of laws and regulations (Continued)

(3) Relationship between the Bank and its employees

a. Remuneration of employees

The remuneration policy of the Bank was designed to facilitate the achievement of strategic operational goals, enhancement of competitiveness, and the nurturing of talent and risk control. The policy aims at developing a comprehensive, scientific and effective incentive and constraint mechanism that maximizes shareholders' value, corporate benefits and employee benefits. It enables the Bank to work its way towards stable operational and sustainable development by adopting advanced, sustainable, lawful, timely and practical management.

b. Staff employment

The Bank has enhanced staff employment management by formulating a standardized set of recruitment criteria and procedure regulating internal recruitment, deployment and other aspects of internal staff management. The Bank has also expanded efforts in recruiting through external channels such as schools, college-graduate village officials, other industry players and headhunters. The Bank has adopted strict procedures in credential checks, written tests, interviews and background checks to ensure that the recruitment process is open, just and fair.

c. Staff training and career development

In 2016, the Bank implemented the training programme formulated at the beginning of the year to provide training across the Bank with reference to the skills requirements of staff at different levels and positions with the aim of enhancing their skills and overall qualities and greatly facilitating their career development.

The Bank provided diverse staff training via multiple channels. In 2016, the Bank established a training center, optimized the online training platform and launched the mobile learning platform where staff could receive integrated online and offline training in the form of video and face-to-face lectures.

The Bank implemented certificate awards activity. In order to further encourage staff to upgrade their skills, the Bank has set up a certificate award scheme to stimulate enthusiasm in learning. The Bank held in total two certificate award activities in the first and second half of 2016, encouraging staff to continuously improve their qualities, thus providing continuous intelligence support for business development.

The Bank has constructed a position sequence system. In 2016, the Bank continually improved the position sequence management by setting up a position sequence system covering all working positions within the Bank, thereby promoting position sequence management for all staff and offering employees a better career path.

(4) Relationship between the Bank and its customers

See details in section 5.9 "Management Discussion and Analysis – Business Operation" in this annual report.

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6.2 PARTICULARS OF BUSINESS (Continued)

6.2.2 Subsequent events

From 1 January 2017 to the time of publishing the annual results, there has not been any non-financial event that may cause material effects on the results of the Bank.

6.2.3 Future business development trends of the Bank

See details in section 5.13 “Management Discussion and Analysis – Prospects and Measures” in this annual report.

6.2.4 Major risks and uncertainties faced by the Bank

See details in section 5.10 “Management Discussion and Analysis – Risk Management” in this annual report.

6.3 RESERVES

Please refer to the statement of financial position for details of the movements in the reserves of the Bank.

6.4 RESERVES AVAILABLE FOR DISTRIBUTION

Please refer to Note 37 to the financial statements for details of the reserves available for distribution as at 31 December 2016.

6.5 FIXED ASSETS

Please refer to Note 25 to the financial statements for details of movements in the fixed assets of the Bank as of 31 December 2016.

6.6 HOLDING AND TRADING OF SHARES OF OTHER LISTED COMPANIES

The Bank has not held nor traded shares of other listed companies during the reporting period.

6.7 PURCHASE, SALE AND REDEMPTION OF THE BANK'S LISTED SECURITIES

There was no purchase, sale or redemption of listed shares of the Bank by the Bank or its subsidiaries during the reporting period.

6.8 PRE-EMPTIVE RIGHTS

The Articles of Association of the Bank does not provide for pre-emptive rights. There are no pre-emptive rights for the shareholders of the Bank.

6.9 RETIREMENT BENEFITS

Please refer to Note 34 to the financial statements for details of the retirement benefits provided to employees by the Bank.

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6.10 MAJOR DEPOSITORS/BORROWERS

The Bank is not dependent on a single major depositor/borrower. As of the end of the reporting period, the aggregate amount of operating income generated from the five largest depositors/borrowers of the Bank represented an amount not exceeding 30% of the total operating income of the Bank. The directors of the Bank and its connected persons do not have any significant interest in the aforementioned five largest depositors/borrowers.

6.11 PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT

Please refer to Chapter VIII "Profile of Directors, Supervisors, Senior Management, Employees and Institutions" in this annual report.

6.12 INTERESTS AND SHORT POSITIONS HELD BY THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES UNDER HONG KONG LAWS AND REGULATIONS

As at 31 December 2016, the directors, supervisors and chief executives of the Bank and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong) as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance of Hong Kong 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 Issuers in Appendix 10 of the Hong Kong Listing Rules.

Name	Position	Class of Shares	Status	Number of shares (share) (Long position)	Percentage of related issued shares in the class (%)	Percentage of all issued ordinary shares (%)
Ci Yaping	Director	Domestic Shares	Beneficial Owner	133,451	0.0017	0.0012
Xu Demei ⁽¹⁾	Director	Domestic Shares	Beneficial Owner	84,861	0.0011	0.0008
Xu Chongding	Supervisor	Domestic Shares	Beneficial Owner	497,801	0.0063	0.0045
Zhou Tong	Supervisor	Domestic Shares	Beneficial Owner	167,974	0.0021	0.0015

Note: (1) For details of the position change of Ms. Xu Demei, please refer to "Changes in Directors, Supervisors and Senior Management of the Bank" under section 8.2 of this annual report.

Save as disclosed above, as at 31 December 2016, none of the directors, supervisors and chief executives of the Bank and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations.

6.13 DIRECTORS AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

During the reporting period, none of the directors, supervisors or their respective spouses or children under the age of 18 years acquired any right by the way of purchase of shares or bonds of the Bank or exercised such related rights; and none of the Bank or any of its subsidiaries had made any arrangements to enable the directors, supervisors or their respective spouses or children under the age of 18 years to obtain such rights in any other body corporate.

6.14 DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the directors of the Bank had any interest in any business that constitutes or may constitute, directly or indirectly, a competing business of the Bank.

6.15 FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed in this annual report, there are, to the knowledge of the Bank, no relationships among the directors, supervisors and senior management of the Bank, including financial, business, family or other material relationships.

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6.16 DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS

During the reporting period, no director or supervisor of the Bank (or its connected entities) had any direct or indirect significant interest in any transaction, arrangement or contract of significance with the Bank or any of its subsidiaries. None of the directors and supervisors of the Bank has entered into service contracts with the Bank that cannot be terminated by the Bank within one year without payment of compensation (other than statutory compensation). During the reporting period, none of the Bank or its subsidiaries had any arrangements that enable the directors and supervisors to acquire benefits by acquiring shares in and debentures of the Company or any other corporate body.

6.17 PENALTIES AND INVESTIGATIONS OF THE BANK, DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OF THE BANK

During the reporting period, no director, supervisor or senior management of the Bank has been subject to penalties or investigations by competent authorities causing a material impact on the operations of the Bank.

6.18 CONTINUING CONNECTED TRANSACTIONS

In the ordinary course of the business, the Bank provides commercial banking services and products to the public, including the Bank's directors, supervisors and/or their respective associates. During the reporting period, connected transactions between the Bank and connected persons are conducted under normal commercial principles, which are not superior to the conditions for transactions with non-connected persons. The transaction terms are fair and reasonable and in the interests of the Bank and shareholders as a whole. The Bank conducted a series of connected transactions with connected persons (as defined under the Hong Kong Listing Rules) and all these transactions were conducted under normal commercial terms in the ordinary and usual course of business and were exempted from the requirements of reporting, announcement annual review, circular and independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – deposit taking

The Bank takes deposits from its connected persons (including directors, supervisors and/or their respective associates) under normal deposit interest rates and normal commercial terms in the ordinary course of the business. These transactions constitute continuing connected transaction of the Bank under the Hong Kong Listing Rules.

The Bank takes deposits from its connected persons in the ordinary course of business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties. These transactions will constitute exempted continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules, namely financial assistance provided by a connected person in the form of deposits placed with an issuer for the benefit of the issuer on normal commercial terms (or better to the issuer) where no security over the assets of the issuer is granted in respect of the financial assistance, and thus will be exempted from the reporting, announcement, annual audit, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary and usual course of the business – loans and credit facilities

The Bank extends loans and credit facilities to its connected persons (including the directors, supervisors and/or their respective associates) in the ordinary and usual course of its business on normal commercial terms with reference to prevailing market rates. These transactions constitute continuing connected transaction of the Bank under the Hong Kong Listing Rules. The loans and credit facilities offered by the Bank to its connected persons are in the ordinary and usual course of its business and are on normal commercial terms and on comparable terms to independent third parties. Therefore, these transactions constitute exempted continuing connected transactions under Rule 14A.87 of the Hong Kong Listing Rules, namely, financial assistance provided by an issuer in its ordinary and usual course of business for the benefit of a connected person on normal commercial terms, and will thus be exempted from the reporting, announcement, annual audit, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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6.18 CONTINUING CONNECTED TRANSACTIONS (Continued)

Commercial banking services in the ordinary and usual course of the business – other banking service and products

The Bank provides various commercial banking services and products (including credit/debit cards and wealth management products) in the ordinary and usual course of its business to its connected persons (including the directors, supervisors and/or their respective associates) service fees and charges at normal charging standards and on normal commercial terms and conditions. These transactions constitute continuing connected transaction of the Bank under the Hong Kong Listing Rules. It is expected that the applicable percentage ratios (as defined under Rule 14A.06 of the Hong Kong Listing Rules) in respect of the annual aggregate service and/or product fees paid to the Bank by a connected person and its associates will not exceed 0.1%. Therefore, these transactions constitute exempted continuing connected transactions pursuant to Rule 14A.76 of the Hong Kong Listing Rules, and will thus be exempted from the reporting, announcement, annual audit, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Please refer to Note 47 to the financial statements for details of the connected transactions of the Bank.

6.19 MATERIAL LITIGATION AND ARBITRATIONS

As of 31 December 2016, the Bank was involved in the following litigation proceeding in its regular course of business: the number of pending litigation and arbitrations involving the Bank amounted to 58, with a total amount of RMB1,698.4 million. Of these pending litigation and arbitration cases, there were a total of 16 pending litigation and arbitrations against the Bank where final judgment has not been obtained, with a total amount of RMB593.7543 million. The Bank made full provisions for doubtful accounts of loans involved in the cases above according to expected losses. All of the cases will have no material adverse effect on the Bank's financial position and operating results.

6.20 ASSET ACQUISITION, DISPOSAL AND REORGANIZATION

During the reporting period, some of the Bank's assets have been pledged to other banks and the Ministry of Finance as pledge in respect of repurchase agreement and treasury deposits. Apart from that, the Bank has no other asset acquisition, disposal or reorganization outside the ordinary course of business operations.

Please refer to Note 40 to the financial statements for details of the asset pledge of the Bank.

6.21 USE OF FUNDS BY RELATED PARTIES

During the reporting period, neither the major shareholders nor the related parties of the Bank had used any funds of the Bank for non-operating purposes, and no proceeds of public offering of the Bank had been used in any unfair related party transactions.

6.22 REVIEW OF ANNUAL RESULTS

The report of the Bank prepared under International Financial Reporting Standards has been audited by PricewaterhouseCoopers with a standard and unqualified opinion. The Bank's Audit Committee has reviewed the results and the financial statements of the Bank for the year ended 31 December 2016.

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6.23 PROFIT AND DIVIDENDS

The profit of the Bank for the year ended 31 December 2016 and the Bank's financial position as of that date are set out in the "Consolidated Financial Statements" section of this annual report. In accordance with the resolutions passed at the 2015 annual general meeting held on 20 June 2016, the Bank paid an annual cash dividend for 2015 of RMB0.159 per share (including tax) in an aggregate amount of RMB1,757 million (including tax), to all of its shareholders whose names appeared on the register of members on 29 June 2016.

For 2016 profit distribution plan, the Board recommends a cash dividend of RMB0.061 per share (including tax) in an aggregate amount of RMB675 million (including tax) to all shareholders, subject to the approval of the 2016 annual general meeting. The Bank expects to pay the final dividend for 2016 to shareholders whose names appear on the register of members of the Bank on 4 July 2017 by end of August 2017, and will make further announcements after convening of the general meeting in relation to details of the dividend distribution arrangement (including the dividend payment date, etc.). The Board of Directors suggested no special dividend apart from the one mentioned above.

6.24 ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

In order to determine the holders of shares who are eligible to attend and vote at the 2016 annual general meeting to be held on 22 June 2017, the register of members of the Bank will be closed from 23 May 2017 to 22 June 2017, both days inclusive. To be eligible to attend and vote at the 2016 annual general meeting, unregistered holders of H shares of the Bank shall lodge the relevant share transfer documents 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 for registration not later than 4:30 p.m. on 22 May 2017.

In order to determine the holders of shares who are entitled to receive the aforementioned final dividend for 2016, the register of members of the Bank will also be closed from 29 June 2017 to 4 July 2017, both days inclusive. To be eligible to receive the aforementioned final dividend (subject to the approval of the Bank's shareholders), unregistered holders of H shares of the Bank shall lodge the relevant share transfer documents 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 for registration not later than 4:30 p.m. on 28 June 2017.

6.25 PUBLIC FLOAT

Based on the public information available to the Bank and to the knowledge of the Board of Directors, from April 2016 to the Latest Practicable Date, the Bank's H share public float was below 25%, the minimum level as required in Rule 8.08(1)(a) of the Hong Kong Listing Rules. To the knowledge of the Board of Directors, as at the Latest Practicable Date, the Bank's H share public float was approximately 19.94%.

According to the disclosure of interests form submitted by Shanghai Soong Ching Ling Foundation and its controlled corporation Zhongjing Xinhua Property Management (Hong Kong) Co., Limited ("Zhongjing Xinhua Hong Kong") to the Hong Kong Stock Exchange on 5 May 2016, the H shares of the Bank indirectly held by Shanghai Soong Ching Ling Foundation increased to 497,414,000 H shares upon the acquisition of 28,184,000 H shares of the Bank by Zhongjing Xinhua Hong Kong on 29 April 2016, and together with the 649,042,730 Domestic Shares indirectly held by it, Shanghai Soong Ching Ling Foundation indirectly held approximately 10.37% of the Bank's total ordinary share capital in issue. Shanghai Soong Ching Ling Foundation became a core connected person of the Bank, and the interests held by it in the H shares of the Bank were not deemed to be held by the public, as a result of which, the Bank's H share public float fell to approximately 24.12%.

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6.25 PUBLIC FLOAT (Continued)

According to the disclosure of interests form submitted by Shanghai Soong Ching Ling Foundation and Wealth Honest Limited ("Wealth Honest") to the Hong Kong Stock Exchange on 16 May 2016, the Bank became aware that Wealth Honest acquired 400,000,000 H shares of the Bank through off-exchange trading on 12 May 2016. Subsequently on 25 January 2017, the Bank was informed by Zhongjing Industry (Group) Limited, a company which is under the control of Shanghai Soong Ching Ling Foundation, that the above agreement in relation to the aforesaid proposed acquisition of 400,000,000 H shares of the Bank by Wealth Honest was terminated on 21 January 2017 and the proposed acquisition of 400,000,000 H shares of the Bank had not completed.

According to the disclosure of interests form submitted by Zhongjing Xinhua Hong Kong to the Hong Kong Stock Exchange on 5 September 2016 and 28 December 2016, respectively, it acquired 9,232,000 and 53,000,000 H shares of the Bank through on-market tradings on 1 September 2016 and 23 December 2016, respectively. The Bank's H share public float fell to 23.56% upon the completion of the two acquisitions.

The Golden Harbour Investments Management Limited ("Golden Harbour"), 100% of which was indirectly controlled by Wealth Honest, also entered into the share purchase agreement involving the purchase of 400,000,000 H shares of the Bank on 21 January 2017. According to the disclosure of interests forms submitted to the Hong Kong Stock Exchange by Golden Harbour and its associated companies on 25 January 2017 and 7 March 2017, Golden Harbour acquired 400,000,000 H shares of the Bank by way of off-exchange trading on 21 January 2017, among which the acquisition of 332,569,000 H shares was completed on 2 March 2017. The Bank was informed by Zhongjing Xinhua Asset Investment Management Co., Ltd. (中靜新華資產管理有限公司) ("Zhongjing Xinhua"), another company controlled by Shanghai Soong Ching Ling Foundation, by email on 9 February 2017 that Wealth Honest Fund LP (a limited partnership established in the Cayman Islands) holds 100% equity interests in Golden Harbour; and that Wealth Honest Cayman Holdings Company Limited (a wholly-owned subsidiary of Wealth Honest) is the sole general partner of Wealth Honest Fund LP and has absolute control over the operations of the limited partnership. Accordingly, Golden Harbour, being a company 100% indirectly controlled by Wealth Honest, is also a company indirectly controlled by Shanghai Soong Ching Ling Foundation and a core connected person of the Bank and therefore the above-mentioned 332,569,000 H shares of the Bank (where completion of such acquisition has taken place) are not considered to be held by the public. In addition, according to the email from Zhongjing Xinhua, the Bank further understands that although acquisition of the remaining 67,431,000 H shares of the Bank has not been completed as at the Latest Practicable Date, the vendor(s) undertook to appoint the person(s) designated by Golden Harbour as its (their) proxy to attend and vote at the general meeting or class meetings of the Bank in accordance with the instructions of Golden Harbour. As a result, these 67,431,000 H shares of the Bank are also considered not to be held by the public under Rule 8.24 of the Hong Kong Listing Rules, and the public float of the H shares of the Bank further decreased to approximately 19.94%.

The Bank is actively considering various options so as to restore its public float as soon as practicable, including (i) continuing to promote the initial public offering and the listing of A shares; (ii) contacting the substantial shareholders of the Bank and suggesting them to place down their shares in the Bank as soon as practicable; and (iii) seeking opportunities to conduct placing of H shares after considering the market conditions in full and with detailed planning. For details, please refer to the announcements of the Bank dated 11 May 2016, 19 May 2016, 21 June 2016, 1 August 2016, 30 August 2016, 30 September 2016, 31 October 2016, 30 November 2016, 3 January 2017 and 16 March 2017.

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6.26 TAX DEDUCTION

6.26.1 Overseas shareholders

According to the “Notice on the Collection of Personal Income Tax after the Expiration of National Tax Bureau Notice [1993] No. 045” (Guo Shui Han [2011] No. 348), which was released by the State Administration of Taxation on 28 June 2011, the responsible party should withhold personal income tax by law from overseas resident individual shareholders on their dividend income deriving from shares in domestic non-foreign invested companies issued in Hong Kong. However, the overseas resident individual shareholders who hold shares of domestic non-foreign invested companies issued in Hong Kong may be entitled to the relevant favorable tax treatments based on the tax treaties between the countries in which they are domiciled and China and the tax arrangements between Mainland China and Hong Kong (or Macau).

Based on the tax regulation mentioned above, the Bank will withhold personal income tax of the dividend at 10% tax rate for the overseas individual H shareholders. However, where there are different requirements otherwise specified in other relevant tax regulations and tax agreements, the Bank will follow such requirements of the tax authorities.

The Bank will withhold 10% enterprise income tax of the dividend for non-resident corporate overseas H shareholders based on the “Law of the People’s Republic of China on Enterprise Income Tax” and relevant implementation rules which have been effective since 1 January 2008.

If the overseas H shareholders have any queries regarding the tax arrangements mentioned above, please consult your tax consultants regarding the tax implications in Mainland China, Hong Kong and other countries (regions) for holding and disposing the Bank’s H shares.

6.26.2 Mainland’s shareholders of Shanghai-Hong Kong stock connect and Shenzhen-Hong Kong stock connect

Pursuant to the “Notice on the Tax Policies Concerning the Pilot Program of the Shanghai-Hong Kong Stock Connect” (Cai Shui [2014] No. 81) and the “Notice on the Tax Policies Concerning the Pilot Program of the Shenzhen-Hong Kong Stock Connect” (Cai Shui [2016] No. 127), which were jointly released by the Ministry of Finance, the State Administration of Taxation and the CSRC on 31 October 2014 and 5 November 2016, respectively, for dividends obtained by the mainland individual investors from H shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, such H-share companies shall apply to China Securities Depository and Clearing Corporation Limited (hereinafter referred to as the “CSDC”) for providing the register of mainland individual investors and withhold personal income tax at 20% tax rate from mainland individual investors whose names are listed on such register provided by the CSDC. While for dividends obtained by the mainland individual investors from non-H shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the CSDC will withhold personal income tax at 20% tax rate. Individual investors may, by producing valid tax payment certificates, apply to the competent tax authority under the CSDC for tax credit relating to the withholding tax already paid abroad.

For dividend income obtained by the mainland security investment funds from shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, personal income tax shall be withheld according to the above regulations.

For dividend income obtained by the mainland corporate investors from shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, such income shall be included in their total revenue and enterprise income tax shall be withheld by law. Meanwhile, for dividend income obtained by mainland resident enterprises from holding H shares for 12 consecutive months, enterprise income tax shall be exempted by law. H-share companies listed on Hong Kong Stock Exchange shall apply to the CSDC for providing the register of the mainland enterprise investors. The H-share companies shall not withhold income tax of dividends for mainland enterprise investors and such investors shall declare and pay relevant tax themselves.

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6.27 PERMITTED INDEMNITY PROVISIONS

The Bank has maintained appropriate director liability insurance to indemnify the directors for liabilities arising from corporate affairs.

6.28 DONATION

For the year ended 31 December 2016, the Bank made charitable donation and other donations amounting to approximately RMB5.00 million in total.

6.29 MANAGEMENT CONTRACTS

Except for the service contracts of the management of the Bank, the Bank did not enter into any other contract with any individual, company or body corporate to manage or deal with the whole part or any significant part of the Bank's business.

6.30 STOCK-LINKED AGREEMENTS

The Bank did not enter into any other stock-linked agreement in 2016, and there was no stock-linked agreement remaining effective by the end of 2016.

6.31 ISSUE OF DEBENTURES

6.31.1 The Bank issued RMB4 billion of subordinated debts on 2 April 2011 in China's inter-bank bond market, with a maturity of 15 years and a fixed coupon rate of 6.55%, paid annually. The Bank has an option to redeem all of this tranche of bonds at face value on the last day of the tenth year of interest accrued of this tranche of bonds.

Claims on subordinated debts are posterior to other liabilities but prior to the Bank's share capital. From 1 January 2013, they are qualified for inclusion as Tier 2 capital in the calculation of capital adequacy ratio in accordance with "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC.

6.31.2 The Bank issued RMB2.8 billion of small and micro enterprises financial bonds on 19 March 2013 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.3%, paid annually.

6.31.3 The Bank issued RMB2.2 billion of small and micro enterprises financial bonds on 19 March 2013 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.5%, paid annually.

6.31.4 The Bank issued RMB3.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.15%, paid annually.

6.31.5 The Bank issued RMB0.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.35%, paid annually.

6.31.6 The Bank issued RMB8.0 billion of tier 2 capital bonds on 11 September 2015 in China's inter-bank bond market, with a maturity of 10 years and a fixed coupon rate of 4.69%, paid annually. The Bank has an option to redeem part or all of these bonds at face value on last day of the fifth year of interest accrued of this tranche of bonds, subject to the approval from relevant regulatory authorities. Tier 2 capital bond's right of recourse is subordinate to depositors and ordinary creditors and is superior to equity, other tier 1 capital instruments and mixed capital debts.

Chapter VI Report of the Board of Directors

6.31 ISSUE OF DEBENTURES (Continued)

- 6.31.7** The Bank issued RMB3.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 3.9%, paid annually.
- 6.31.8** The Bank issued RMB0.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.1%, paid annually.
- 6.31.9** The Bank issued RMB7.0 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.98%, paid annually.
- 6.31.10** The Bank issued RMB3.0 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.09%, paid annually.
- 6.31.11** The Bank issued 114 certificates of deposit at discounts with total face value of RMB101.39 billion with the maturities ranging from one month to one year, and also issued 7 certificates of deposit with floating rate with total face value of RMB3.90 billion with the maturities ranging from one year to two year in 2016. As at 31 December 2016, the aggregate face value of the undue certificates of deposit issued is RMB60.12 billion.

By order of the Board
Li Hongming
Chairman

23 March 2017

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.1 CHANGES IN SHARES OF THE BANK DURING THE REPORTING PERIOD

	31 December 2016		Changes during the reporting period	31 December 2015	
	Number of shares	Percentage (%)	Number of shares	Number of shares	Percentage (%)
Domestic Shares	7,887,319,283	71.38	0	7,887,319,283	71.38
Overseas listed foreign investment shares (H shares)	3,162,500,000	28.62	0	3,162,500,000	28.62
Total number of shares	11,049,819,283	100	0	11,049,819,283	100

Notes:

- (1) As at the end of the reporting period, the Bank had 18,156 shareholders, including 1,834 shareholders of H shares and 16,322 shareholders of Domestic Shares.
- (2) Based on the public information available and as far as the Board of Directors are aware, as of 31 December 2016, the Bank's public float of H shares was 23.56%, which was lower than the minimum requirement of 25% under Rule 8.08(1)(a) of the Hong Kong Listing Rules. For the public float of the Bank after 31 December 2016, please refer to the disclosure of section 6.25 "Public Float" of this annual report.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.2 INFORMATION ON THE SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS

During the reporting period, the order of top ten shareholders of the Bank is on the basis that: (1) for H shares, shares held by HKSCC Nominees Limited are the total shares in the accounts of the Bank's H shareholders trading shares on the transaction platform of HKSCC Nominees Limited as a nominee, representing 28.58% of total share capital of ordinary shares and representing 99.86% of total H shares issued; (2) for domestic shares, the order shall be based on the number of shares held directly under the domestic shareholder register held by China Securities Depository and Clearing Co., Ltd., and the shareholdings of related shareholders have not been consolidated for the purpose of calculation.

No.	Name of shareholder	Nature of shareholder	Shares held at the end of the period (shares)	Percentage of total share capital of ordinary shares %	Type of shares	Increase/decrease during the reporting period (shares)	Pledged or frozen (shares)
1	HKSCC Nominees Limited ⁽¹⁾	–	3,158,053,980	28.58	H Shares	496,980	–
2	Anhui Energy Group Co., Ltd.	State-owned legal person	766,694,381	6.94	Domestic Shares	–	–
3	Anhui Credit Guaranty Group Co., Ltd	State-owned legal person	752,416,446	6.81	Domestic Shares	–	376,208,200
4	Anhui Guoyuan Holding (Group) Co., Ltd. ⁽²⁾	State-owned legal person	645,388,876	5.84	Domestic Shares	–	–
5	Anhui Transportation Holding Group Co., Ltd.	State-owned legal person	469,032,613	4.24	Domestic Shares	–	–
6	Zhongjing Sihai Co., Ltd.	Domestic non-state-owned legal person	444,696,160	4.02	Domestic Shares	–	151,366,700
7	Hefei Xingtai Financial Holding (Group) Co., Ltd.	State-owned legal person	343,591,483	3.11	Domestic Shares	–	–
8	Wuhu Construction Investment Co., Ltd.	State-owned legal person	267,284,394	2.42	Domestic Shares	–	–
9	CCB Trust Co., Ltd	State-owned legal person	225,548,176	2.04	Domestic Shares	–	–
10	Zhongjing Xinhua Asset Investment Management Company Ltd.	Domestic non-state-owned legal person	204,346,570	1.85	Domestic Shares	–	44,000,000

Notes:

- (1) Shares held by HKSCC Nominees Limited are the total shares in the accounts of the Bank's H Shareholders trading on the transaction platform of HKSCC Nominees Limited as a nominee.
- (2) Except for the above domestic shares of the Bank held by Anhui Guoyuan Holding (Group) Co., Ltd., it also effectively controls 149,087,330 domestic shares of the Bank held by its controlling subsidiaries including Anhui Guoyuan Ma'anshan Asset Management Co., Ltd., Anhui Guoyuan Trust Co., Ltd. and Guoyuan Securities Co., Ltd.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS

As at 31 December 2016, the following persons (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Bank) had interests and short positions in the shares of the Bank as recorded in the register required to be kept by the Bank pursuant to Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO").

Name of substantial shareholder	Type of share	Long/short position	Capacity	Number of shares	Percentage of the relevant type of shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
Anhui Energy Group Co., Ltd.	H Share	Long	Interest of controlled corporation	293,436,000	9.28	2.66	1
	Domestic Share	Long	Beneficial owner	766,694,381	9.72	6.94	
Xing An Holding Co., Limited	H Share	Long	Beneficial owner	293,436,000	9.28	2.66	1
Anhui Credit Guaranty Group Co., Ltd.	Domestic Share	Long	Beneficial owner	752,416,446	9.54	6.81	
Anhui Guoyuan Holding (Group) Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	149,087,330	1.89	1.35	2
	Domestic Share	Long	Beneficial owner	645,388,876	8.18	5.84	
Anhui Transportation Holding Group Co., Ltd.	H Share	Long	Interest of controlled corporation	4,327,000	0.14	0.04	3
	Domestic Share	Long	Beneficial owner	469,032,613	5.95	4.25	
Anhui Transportation Holding Group (H.K.) Limited	H Share	Long	Beneficial owner	4,327,000	0.14	0.04	3
Zhongjing Sihai Co., Ltd.	Domestic Share	Long	Beneficial owner	444,696,160	5.64	4.02	4
China Vanke Co., Ltd.	H Share	Long	Interest of controlled corporation	883,986,000	27.95	8.00	5
Wkland Finance Holding Company Limited	H Share	Long	Beneficial owner	511,140,000	16.16	4.63	5
Wkland Finance Holding II Company Limited	H Share	Long	Beneficial owner	372,846,000	11.79	3.37	5
Sunshine Insurance Group Corporation Limited	H Share	Long	Interest of controlled corporation	543,722,000	17.19	4.92	6
Sunshine Life Insurance Corporation Limited	H Share	Long	Beneficial owner	543,722,000	17.19	4.92	6
Shanghai Soong Ching Ling Foundation	H Share	Long	Interest of controlled corporation	559,646,000	17.70	5.06	8, 9
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	4, 7
Zhongjing Industry (Group) Co., Limited	H Share	Long	Interest of controlled corporation	559,646,000	17.70	5.06	8, 9
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	4, 7
Modern Innovation Holding Co., Limited	H Share	Long	Interest of controlled corporation	559,646,000	17.70	5.06	8, 9
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	4, 7
Jingan Shanghai Silver Investment Co., Ltd.	H Share	Long	Interest of controlled corporation	559,646,000	17.70	5.06	8, 9
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	4, 7
Zhongjing Xinhua Asset Investment Management Company Ltd.	H Share	Long	Interest of controlled corporation	559,646,000	17.70	5.06	8, 9
	Domestic Share	Long	Interest of controlled corporation	444,696,160	5.64	4.02	4
	Domestic Share	Long	Beneficial owner	204,346,570	2.59	1.85	7
Zhongjing Xinhua Property Management (Hong Kong) Co., Limited	H Share	Long	Interest of controlled corporation	469,230,000	14.84	4.25	9
	H Share	Long	Beneficial owner	90,416,000	2.86	0.82	8
Wealth Honest Limited	H Share	Long	Beneficial owner	469,230,000	14.84	4.25	9
Zhu Mingliang	H Share	Long	Interest of controlled corporation	341,623,000	10.80	3.09	10
Zenith (H.K.) Holding Limited	H Share	Long	Interest of controlled corporation	341,623,000	10.80	3.09	10
Vasari Investment Holdings Limited	H Share	Long	Beneficial owner	341,623,000	10.80	3.09	10

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Notes:

1. Xing An Holdings Limited holds 285,226,000 H shares (long position) of the Bank. Xing An Holdings Limited is a wholly-owned subsidiary directly controlled by Anhui Energy Group Co., Ltd. As such, Anhui Energy Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Xing An Holdings Limited. At the same time, Anhui Energy Group Co., Ltd. holds 766,694,381 Domestic Shares (long position) of the Bank.

In addition, Xing An Holdings Limited bought 8,210,000 H shares (long position) through stock exchange from 23 May 2016 to 23 December 2016, which did not meet the disclosure requirements under Part XV of the SFO. Therefore, no disclosure was made on the Hong Kong Stock Exchange. As such, as of 31 December 2016, Xing An Holdings Limited and its actual controller ultimately held interests in 293,436,000 H shares (long position).
2. The shareholdings of Anhui Guoyuan Holding (Group) Co., Ltd. include the Domestic Shares of the Bank held by its controlling subsidiaries, including Anhui Guoyuan Ma'anshan Asset Management Co., Ltd., Anhui Guoyuan Trust Co., Ltd. and Guoyuan Securities Co., Ltd.
3. Anhui Transportation Holding Group (H.K.) Limited holds 4,327,000 H shares (long position) of the Bank. Anhui Transportation Holding Group (H.K.) Limited is a wholly-owned subsidiary directly controlled by Anhui Transportation Holding Group Co., Ltd. As such, Anhui Transportation Holding Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Transportation Holding Group (H.K.) Limited. At the same time, Anhui Transportation Holding Group Co., Ltd. holds 469,032,613 Domestic Shares (long position) of the Bank.
4. Zhongjing Sihai Co., Ltd. holds 444,696,160 Domestic Shares (long position) of the Bank, which is under the control of Zhongjing Xinhua Asset Investment Management Company Ltd. Zhongjing Xinhua Asset Investment Management Company Ltd. is under the control of Jingan Shanghai Silver Investment Co., Ltd. Jingan Shanghai Silver Investment Co., Ltd. is a wholly-owned subsidiary of Modern Innovation Holdings Limited, which is in turn controlled by Zhongjing Industry (Group) Limited. Zhongjing Industry (Group) Limited is under the control of Shanghai Soong Ching Ling Foundation. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry (Group) Limited, Modern Innovation Holdings Limited, Jingan Shanghai Silver Investment Co., Ltd. and Zhongjing Xinhua Asset Investment Management Company Ltd. are deemed to be interested in the shares of the Bank held by Zhongjing Sihai Co., Ltd.
5. China Vanke Co., Ltd. is deemed to hold interests in a total of 883,986,000 H shares (long position) of the Bank by virtue of its control over the following corporations which hold direct interests in the Bank:
 - "5.1" Wkland Finance Holding Company Limited holds 511,140,000 H shares (long position) of the Bank. Wkland Finance Holding Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.
 - "5.2" Wkland Finance Holding II Company Limited holds 372,846,000 H shares (long position) of the Bank. Wkland Finance Holding II Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.
6. Sunshine Life Insurance Corporation Limited holds 543,722,000 H shares (long position) of the Bank. Sunshine Life Insurance Corporation Limited is a subsidiary directly controlled by Sunshine Insurance Group Corporation Limited. As such, Sunshine Insurance Group Corporation Limited is deemed to be interested in the shares of the Bank held by Sunshine Life Insurance Corporation Limited.
7. Zhongjing Xinhua Asset Investment Management Company Ltd. directly holds 204,346,570 Domestic Shares (long position) of the Bank. Shanghai Soong Ching Ling Foundation, Zhongjing Industry (Group) Limited, Modern Innovation Holdings Limited and Jingan Shanghai Silver Investment Co., Ltd. are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua Asset Investment Management Company Ltd.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.3 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

8. Zhongjing Xinhua Property Management (Hong Kong) Co., Limited directly holds 90,416,000 H shares (long position) of the Bank. Zhongjing Xinhua Property Management (Hong Kong) Co., Limited is a wholly-owned subsidiary of Zhongjing Xinhua Asset Investment Management Company Ltd. Zhongjing Xinhua Asset Investment Management Company Ltd. is under the control of Jingan Shanghai Silver Investment Co., Ltd. Jingan Shanghai Silver Investment Co., Ltd. is a wholly-owned subsidiary of Modern Innovation Holdings Limited, which is in turn controlled by Zhongjing Industry (Group) Limited. Zhongjing Industry (Group) Limited is under the control of Shanghai Soong Ching Ling Foundation. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry (Group) Limited, Modern Innovation Holdings Limited, Jingan Shanghai Silver Investment Co., Ltd. and Zhongjing Xinhua Asset Investment Management Company Ltd. are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua Property Management (Hong Kong) Co., Limited.
9. Wealth Honest Limited holds 469,230,000 H shares (long position) of the Bank. Wealth Honest Limited is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua Property Management (Hong Kong) Co., Limited, which is in turn a wholly-owned subsidiary of Zhongjing Xinhua Asset Investment Management Company Ltd. Zhongjing Xinhua Asset Investment Management Company Ltd. is under the control of Jingan Shanghai Silver Investment Co., Ltd., which is in turn a wholly-owned subsidiary of Modern Innovation Holdings Limited. Modern Innovation Holdings Limited is under the control of Zhongjing Industry (Group) Limited, which is in turn under the control of Shanghai Soong Ching Ling Foundation. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry (Group) Limited, Modern Innovation Holdings Limited, Jingan Shanghai Silver Investment Co., Ltd., Zhongjing Xinhua Asset Investment Management Company Ltd. and Zhongjing Xinhua Property Management (Hong Kong) Co., Limited are deemed to be interested in the shares of the Bank held by Wealth Honest Limited.

In addition, according to the disclosure of interests form submitted by Wealth Honest Limited to the Hong Kong Stock Exchange on 16 May 2016, the Bank became aware that Wealth Honest Limited acquired 400 million H shares of the Bank through off-exchange trading on 12 May 2016. Subsequently on 8 July 2016, the Bank was officially informed that the aforesaid proposed acquisition of 400 million H shares of the Bank by Wealth Honest Limited had not completed yet, and based on the information currently available to the Bank, the proposed acquisition of 400 million H shares remained uncompleted as at 31 December 2016. For the progress of the proposed acquisition of 400 million H shares after 31 December 2016, please refer to the disclosure of section 6.25 "Public Float" of this annual report.

10. Vasari Investment Holdings Limited holds 332,569,000 H shares (long position) of the Bank. Vasari Investment Holdings Limited is controlled by Zenith (H.K.) Holding Limited, which is in turn under the control of Zhu Mingliang. As such, Zhu Mingliang and Zenith (H.K.) Holding Limited are deemed to be interested in the shares of the Bank held by Vasari Investment Holdings Limited.

According to the latest disclosure of interests forms of Vasari Investment Holdings Limited under Part XV of the SFO, Vasari Investment Holdings Limited held 332,569,000 H shares (long position) of the Bank. However, to the knowledge of the Bank and based on the confirmation of the aforesaid companies and individual, the acquisition of 9,054,000 H shares (long position) of the Bank by Vasari Investment Holdings Limited through off-exchange trading on 24 May 2016 was completed, which was exempted from compliance with the disclosure of interests requirements under Part XV of the SFO. Therefore, no disclosure was made in the Stock Exchange of Hong Kong. As such, as at 31 December 2016, Vasari Investment Holdings Limited and its actual controller ultimately held the interests in 341,623,000 H shares (long position) of the Bank.

Save as disclosed above, the Bank is not aware of any other person (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Bank) having any interests or short positions in the shares and 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.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.4 INFORMATION ON SHAREHOLDERS HOLDING OVER 5% OF THE SHARES OF THE BANK

- 7.4.1** Shanghai Soong Ching Ling Foundation is a public welfare foundation established in 1986 by the China Welfare Institute, which was founded by Mme. Soong Ching Ling. During the reporting period, Shanghai Soong Ching Ling Foundation held in aggregate 1,208,688,730 shares of the Bank through Zhongjing Xinhua Asset Investment Management Company Ltd., Zhongjing Sihai Co., Ltd., Zhongjing Xinhua Property Management (Hong Kong) Co., Limited and Wealth Honest Limited which are directly controlled by Shanghai Soong Ching Ling Foundation, representing 10.93% of the total issued shares of the Bank; Zhongjing Xinhua Asset Investment Management Company Ltd. holds 204,346,570 Domestic Shares of the Bank directly, 559,646,000 H shares through its wholly-owned subsidiaries Zhongjing Xinhua Property Management (Hong Kong) Co., Limited and Wealth Honest Limited, and 444,696,160 Domestic Shares through its controlling subsidiary Zhongjing Sihai Co., Ltd. The scope of business of the foundation includes fund-raising, investment and management of funds, receiving donation, development and implementation of and support and subsidies to public welfare projects in relation to education, culture, health care and social sustainable development.
- 7.4.2** Anhui Energy Group Company Ltd., is a wholly state-owned enterprise. During the reporting period, it held 766,694,381 Domestic Shares directly and 293,436,000 H shares of the Bank through its wholly-owned subsidiary Xing An Holdings Limited, thus holding a total of 1,060,130,381 shares of the Bank, which accounts for 9.59% of the total issued share of the Bank. The company was established in Hefei, Anhui Province on 9 April 1990, with its current registered capital of RMB4.375 billion. Its legal representative is Zhang Feifei. The principal scope of business of the company includes: management of state-owned assets, project investment and management, foreign economic and technology cooperation, exchange and services, commercial information and investment information of consultation services, investment qualification approval for construction projects, etc.
- 7.4.3** China Vanke Co., Ltd. is a listed company. During the reporting period, it held 883,986,000 H shares which accounts for 8.00% of the total issued share of the Bank. Incorporated with Shenzhen Administration for Industry & Commerce on 30 May 1984, China Vanke Co., Ltd. has a registered capital of RMB10,995,210,218 and its legal representative is Wang Shi. Its scope of business includes real estate development, industrial projects, domestic commerce, supply and marketing of materials, and import and export trades.
- 7.4.4** Anhui Guoyuan Holding (Group) Co., Ltd. is a wholly state-owned company. During the reporting period, it held 645,388,876 Domestic Shares directly and 149,087,330 Domestic Shares of the Bank through its controlling subsidiaries Anhui Guoyuan Ma'anshan Asset Management Co., Ltd., Anhui Guoyuan Trust Co., Ltd. and Guoyuan Securities Co., Ltd., thus holding a total of 794,476,206 Domestic Shares of the Bank, which accounts for 7.19% of the total issued share of the Bank. The company was established in Hefei, Anhui Province in December 2000, and has a registered capital of RMB3 billion. Its legal representative is Zhang Ziliang. Its scope of business includes management of all of the state-owned assets and shares of group companies and their holding companies authorized by the government, capital operation, asset management, mergers and acquisitions, asset restructuring and investment consulting.
- 7.4.5** Anhui Credit Guaranty Group Co., Ltd. is a wholly state-owned company. During the reporting period, it held 752,416,446 Domestic Shares of the Bank, which accounts for 6.81% of the total issued share of the Bank. The company was established in Hefei, Anhui Province in November 2005, with a registered capital of RMB10.766 billion, and its legal representative is Qian Li. Its principal business scope includes: provision of guarantees for SMEs and re-guarantees for guarantee institutions, project investment, capital operation, asset management and consulting services, credit rating, financial and business consulting.

Chapter VII Changes in Share Capital and Particulars of Shareholders

7.5 INITIAL PUBLIC OFFERING OF A SHARES

2014 annual general meeting was convened by the Bank on 29 May 2015, on which, among others, the proposal for initial public offering of A shares was considered and approved. The Bank proposed to issue no more than 1.228 billion A shares. The matters in relation to the proposed issuance of A shares were disclosed in the circular dated 13 May 2015 and the announcement dated 29 May 2015 published by the Bank. The Bank submitted application materials, including the A share prospectus, to the CSRC on 18 June 2015 and an acceptance has been given by the CSRC. The A share prospectus was published on the CSRC website (www.csrc.gov.cn) on 3 July 2015, and on the HKExnews website of Hong Kong Exchanges and Clearing Limited on the same day according to Rule 13.10B of the Hong Kong Listing Rules.

As the valid periods of the A Share Offering Plan and the authorizations granted to the Board to deal with specific matters related to the A Share Offering approved by the shareholders of the Bank at the 2014 annual general meeting had respectively expired on 28 May 2016, the Bank obtained approval by its shareholders at the 2015 annual general meeting held on 20 June 2016 for such resolutions in relation to the extension of the valid periods of the A Share Offering Plan and the authorizations granted to the Board to deal with specific matters related to the A Share Offering for another twelve months (i.e., until 28 May 2017). In addition, in light of the new requirements released by the CSRC on 30 December 2015, the Bank proposed to amend the resolution with respect to the dilution of current returns and the remedial measures of the A Share Offering, and such amendments had been considered and approved at the 2015 annual general meeting of the Bank. Details of such resolutions were disclosed in the circular dated 12 April 2016 and the announcement dated 20 June 2016.

The Bank submitted application materials including the supplemental A share prospectus, which set out the financial data for the six months ended 30 June 2016, to the CSRC on 30 September 2016. On 9 December 2016, the sponsor of the Bank received the "Notice Regarding the CSRC's Feedback on the Review of Administrative Permission Items" issued by the CSRC. The Bank submitted a written reply to the CSRC on 8 March 2017.

7.6 PRIVATE PLACEMENT OF H SHARES

On 31 December 2015, the Bank entered an investment agreement with China Kingkong (Holdings) Group Limited ("China Kingkong"). It is intended to allot 572,000,000 new H shares to be issued by the Bank at the subscription price of HK\$4.09 per share under the general mandate granted to the Board at the annual general meeting. As the conditions precedent as agreed under the investment agreement have not been fully satisfied on 29 February 2016, and the Bank and China Kingkong were unable to reach a new agreement on continuous implementation of the transaction, the investment agreement has been automatically terminated on 29 February 2016 in accordance with its terms. The subscription under the investment agreement will not process. The Board of the Bank is of the view that the termination of the investment agreement and the subscription thereunder will not have any material adverse effect on the business operation and financial position of the Bank. For details, please refer to the announcements dated 31 December 2015, 25 January 2016 and 29 February 2016 published by the Bank.

7.7 NON-PUBLIC OFFERING OF OFFSHORE PREFERENCE SHARES

To enhance the Bank's comprehensive competitiveness and sustainable development capacity, the Bank held the 2015 annual general meeting, the 2016 first class meeting for Domestic shareholders, and the 2016 first class meeting for H shareholders on 20 June 2016, on which the proposal for the non-public offering of offshore preference shares was considered and approved. The Bank intended to conduct a non-public issuance of no more than 60,000,000 offshore preference shares to raise funds not exceeding RMB6 billion or its equivalent to replenish the Bank's additional tier 1 capital.

The Bank has disclosed relevant matters on the proposal for offering of offshore preference shares in the circular dated 12 April 2016 and the announcement dated 20 June 2016.

On 10 November 2016, the Bank successfully issued 44,400,000 shares of offshore preference shares at the issue price of US\$20 per share and raised US\$888 million. After deducting the issue costs, the Bank used the relevant capital to replenish the Bank's additional tier 1 capital according to applicable laws and regulations and the approval from relevant regulatory authorities. Offshore preference shares were listed on the Hong Kong Stock Exchange on 11 November 2016.

The Bank's offshore preference shares are issued for qualified investors that comply with relevant regulatory requirements and other laws and regulations.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Gender	Date of birth	Position held	Start of term of office ⁽¹⁾	Total remuneration from the Bank during the reporting period before tax (RMB10 thousand) ⁽²⁾
Li Hongming	Male	September 1957	Chairman, Executive Director	10 July 2013	68.5
Wu Xuemin	Male	February 1968	President, Executive Director	10 July 2013	62.5
Ci Yaping	Male	May 1959	Vice President, Executive Director	10 July 2013	53.8
Zhang Feifei	Male	June 1959	Non-Executive Director	10 July 2013	–
Zhu Jiusheng	Male	March 1969	Non-Executive Director	8 October 2014	–
Qian Li	Male	March 1974	Non-Executive Director	13 July 2015	–
Lu Hui	Female	July 1961	Non-Executive Director	13 July 2015	–
Zhao Zongren	Male	February 1956	Non-Executive Director	8 October 2014	–
Qiao Chuanfu	Male	August 1959	Non-Executive Director	13 July 2015	–
Gao Yang	Male	June 1966	Non-Executive Director	10 July 2013	–
Dai Genyou	Male	December 1949	Independent Non-Executive Director	10 July 2013	10.1
Wang Shihao	Male	April 1950	Independent Non-Executive Director	10 July 2013	10.3
Zhang Shenghuai	Male	June 1962	Independent Non-Executive Director	10 July 2013	7.6
Au Ngai, Daniel	Male	October 1968	Independent Non-Executive Director	10 July 2013	7.6
Zhu Hongjun	Male	January 1976	Independent Non-Executive Director	8 October 2014	10.3

Name	Gender	Date of birth	Position held	Start of term of office ⁽¹⁾	Total remuneration from the Bank during the reporting period before tax (RMB10 thousand) ⁽²⁾
Zhang Renfu ⁽³⁾	Male	March 1962	Employee Supervisor, Chairman of the Board of Supervisors	8 January 2016 15 January 2016	53.8
Xu Chongding	Male	November 1957	Employee Supervisor, Chairman of Labor Union	10 July 2013	121.3
Zhou Tong	Female	September 1965	Employee Supervisor, General Manager of the Compliance Department	23 August 2014	108.5
Cheng Rulin	Male	August 1963	Shareholder Supervisor	10 July 2013	–
Qian Xiaojun	Male	December 1957	Shareholder Supervisor	30 June 2014	–
Cheng Junpei	Female	October 1963	External Supervisor	10 July 2013	9.0
Fan Libo	Male	September 1964	External Supervisor	10 July 2013	–
Pan Shujuan	Female	October 1955	External Supervisor	10 July 2013	9.0

Name	Gender	Date of birth	Position held	Start of term of office ⁽¹⁾	Total remuneration from the Bank during the reporting period before tax (RMB10 thousand) ⁽²⁾
Gao Guangcheng	Male	January 1964	Vice President	10 July 2013	53.7
Zhang Youqi	Male	October 1965	Vice President	10 July 2013	53.7
Sheng Hongqing	Male	July 1971	Assistant to President and Chief Investment Officer	17 March 2015	201.3
Yi Feng	Male	August 1963	Assistant to President and Secretary to the Board of Directors	10 July 2013 13 July 2015	121.1
Xia Min	Male	April 1971	Assistant to President and President of Hefei Branch of the Bank	10 July 2013	166.9
Chen Hao	Male	July 1958	Chief Information Officer	10 December 2014	201.3

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Name	Gender	Date of birth	Position held	Term of office ⁽¹⁾	Total remuneration from the Bank during the reporting period before tax (RMB10 thousand) ⁽²⁾
Xu Demei ⁽³⁾	Female	November 1956	Former Vice Chairman, Executive Director	10 July 2013 – 1 March 2017	53.8
Fung Weichang ⁽³⁾	Male	February 1948	Independent Non-executive Director	8 October 2014 – 20 March 2017	6.3
Zhang Zhen ⁽³⁾	Male	October 1955	Former Employee Supervisor, Former Chairman of the Board of Supervisors	10 July 2013 – 8 January 2016	28.7
Cheng Hong ⁽³⁾	Male	March 1966	Former Shareholder Supervisor	10 July 2013 – 8 November 2016	–
Yan Dongshun ⁽³⁾	Male	August 1963	Former Assistant to President and President of Nanjing Branch of the Bank	10 July 2013 – 13 February 2016	138.5

Notes:

- (1) The term of office of the third session of the Board of Directors, Board of Supervisors and senior management has expired on 10 July 2016. As, among others, nomination process for part of directors nominated by shareholders has not yet been completed and candidates for part of directors are still in selection process, the Bank could not complete the re-election work before the expiration of the third session of Board of Directors. The current directors, supervisors and senior management will continue to fulfill their corresponding responsibilities until the re-election work is completed.
- (2) Pursuant to the requirements of the relevant PRC authorities, the remuneration payable to the executive directors, employee supervisors and senior management of the Bank above is still subject to final confirmation. Further disclosure will be made after the confirmation of the final remuneration. The total remuneration before tax from the Bank during the reporting period includes the “five insurances and housing provident fund” and the portion of corporate contribution to enterprise annuity.
- (3) For details of changes in duties and positions held by Ms. Xu Demei, Mr. Fung Weichang, Mr. Zhang Renfu, Mr. Zhang Zhen, Mr. Cheng Hong and Mr. Yan Dongshun, please refer to “Changes in Directors, Supervisors and Senior Management of the Bank” under section 8.2 of this annual report.

8.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

1. The Bank made an announcement on 9 November 2015 that, as he would be unable to perform his duties as a shareholder supervisor and a member of the nomination committee of the Board of Supervisors due to his other job commitments, Mr. Fan Libo tendered his resignation on the date of the announcement to resign his duties as external supervisor. His resignation will take effect on the date upon the formal appointment of his succeeding external supervisor by the Bank. Mr. Fan will also cease to be the chairman of the Supervisory Committee of the Board of Supervisors with immediate effect.
2. The Bank made an announcement on 16 December 2015 that, due to his desire to devote more time to other business commitments, Mr. Wang Shihao, an independent non-executive director of the Bank, tendered his resignation on the date of the announcement as an independent non-executive director, a member and chairman of the Risk Management Committee and a member of the Strategic Development Committee of the Bank, with effect from the date upon the formal appointment of his succeeding independent non-executive director by the Bank.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK (Continued)

3. The Bank made an announcement on 5 January 2016 that, Mr. Zhang Zhen tendered his resignation on 5 January 2016 for his positions as the chairman of the Board of Supervisors, an employee supervisor, a member of the Nomination Committee of the Board of Supervisors and a member of the Supervisory Committee of the Board of Supervisors as he has reached the retirement age, with effect from 8 January 2016.
4. The Bank made an announcement on 6 January 2016 that, Mr. Zhang Renfu, an executive director of the Bank, tendered his resignation to the Board of Directors on 6 January 2016 as an executive director and a member of the Strategic Development Committee of the Board of Directors due to position re-arrangement in the Bank, with immediate effect. The Bank made an announcement on 8 January 2016 that, pursuant to the Terms of Reference of the Board of supervisors and through employees' democratic procedures of the Bank, Mr. Zhang Renfu has been elected as an employee supervisor of the Bank on 8 January 2016. The term of office of Mr. Zhang as an employee supervisor is the same as the term of the third session of the Board of Supervisors. The Bank made an announcement on 15 January 2016 that, Mr. Zhang Renfu has been elected as the chairman of the third session of the Board of Supervisors of the Bank at the sixteenth meeting of the third session of the Board of Supervisors of the Bank on 15 January 2016. The term of office of Mr. Zhang as a chairman of the Board of Supervisors and the member of the above committee is the same as the term of the third session of the Board of Supervisors. Mr. Zhang Renfu has been elected as the member of Nomination Committee and Supervisory Committee of the third session of the Board of Supervisors at the seventeenth meeting of the third session of the Board of Supervisors.
5. The Bank made an announcement on 7 April 2016 that, due to his desire to devote more time to his other business commitments, Mr. Zhu Hongjun, an independent non-executive director of the Bank, tendered his resignation as an independent non-executive director, a member and chairman of the Audit Committee and a member of the Related Party Transaction Control Committee of the Bank, with effect from the date upon the formal appointment of his succeeding independent non-executive director by the Bank.
6. The Bank made an announcement on 23 May 2016 that, due to his desire to devote more time to his other business commitments, Mr. Fung Weichang, an independent non-executive director of the Bank, tendered his resignation as an independent non-executive director, a member of the Strategic Development Committee and a member of the Nomination and Remuneration Committee of the Bank. His resignation would originally come into effect from the date of formal appointment of his replacement of independent non-executive director by the Bank. The Bank made an announcement on 20 March 2017 that, as Mr. Fung proposed to the Board of Directors that he would like his resignation become effective as soon as possible, Mr. Fung has no longer been an independent non-executive director, a member of the Strategic Development Committee and a member of the Nomination and Remuneration Committee of the Bank from 20 March 2017.
7. The Bank made an announcement on 10 November 2016 that, Mr. Cheng Hong, a shareholder supervisor of the Bank, who considered that he would be unable to perform his duties as a shareholder supervisor and a member of the Nomination Committee of the Board of Supervisors due to his other job commitments, tendered his resignation on 8 November 2016 as a shareholder supervisor and a member of the Nomination Committee of the Board of Supervisors of the Bank, with effect from 8 November 2016.
8. Mr. Yan Dongshun, an assistant to president and president of Nanjing Branch of the Bank, due to his desire to devote more time to his other business commitments, tendered his resignation on 13 February 2017 as an assistant to president and president of Nanjing Branch of the Bank with immediate effect.
9. The Bank made an announcement on 1 March 2017 that, Ms. Xu Demei, the executive director of the Bank, tendered her resignation on the date of the announcement as the vice chairman, executive director, a member of the Related Party Transaction Control Committee and Risk Management Committee of the Bank as she has reached the retirement age, with immediate effect.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors



Mr. Li Hongming, joined the Bank in July 2013, is currently an executive director and chairman of the Bank. Mr. Li's primary working experiences include: the first class inspector and then deputy head of the policy research division under the policy research office of Anhui Provincial CPC Committee, deputy head of the production system division and head of the enterprise system division of Anhui Provincial System Reform Commission, deputy director and director of the Development Research Center of Anhui Provincial Government, deputy secretary-general of the Anhui Provincial CPC Committee and director of its policy research office, deputy secretary of Huangshan Municipal CPC Committee, mayor and secretary of the CPC Committee of Huangshan Municipal Government, director of the Management Committee of Huangshan Scenic District, secretary of Suzhou Municipal CPC Committee, director of the Standing Committee of Suzhou Municipal People's Congress, and the first secretary of the Party Working Committee of Suzhou Ma'anshan Modern Industrial Park. Mr. Li obtained a bachelor's degree in automation from Hefei University of Technology, graduated from a research master's degree program in the principles of Marxism as offered by the University of Science and Technology of China, and studied in the University of Maryland in the United States of America as a visiting scholar from February to August 1998.



Mr. Wu Xuemin, joined the Bank in October 2010, is currently an executive director and president of the Bank. His primary working experiences include: deputy director of the newspaper and theories department of China Construction Bank, deputy director of the office of the board of directors and the administrative office of China UnionPay Co., Ltd., general manager of Anhui Branch of China UnionPay Co., Ltd., and general manager of the strategic development department and legal compliance department of China UnionPay Co., Ltd. Mr. Wu, a senior economist, obtained a master's degree in economics from Renmin University of China and a master's degree in business administration for senior management from Fudan University.



Mr. Ci Yaping, joined the Bank in December 2005, is currently an executive director and vice president of the Bank. His primary working experiences include: vice president of Anqing Branch of the Bank of Communications, and chairman of the board of directors and president of Anqing City Commercial Bank. Mr. Ci, a senior economist, obtained an Executive Master of Business Administration (EMBA) master's degree from Arizona State University of United States.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Directors (Continued)

Mr. Zhang Feifei, joined the Bank in April 2012, is currently a non-executive director of the Bank. His primary working experiences include: deputy director and then director of Anhui Provincial System Reform Commission, mayor of Feixi County, Anhui Province, member of the standing committee of the government and then first deputy mayor of Huaibei, Anhui Province, and member of the standing committee of the government, first deputy mayor and then mayor of Chaohu, Anhui Province. Mr. Zhang is the chairman of the board of directors of Anhui Province Energy Group Company Limited, Anhui Province Wenergy Co., Ltd., and a director of Xing An Holdings Limited and Guoyuan Securities Company Ltd. Mr. Zhang obtained a master's degree in management from the University of Science and Technology of China.

Mr. Zhu Jiusheng, joined the Bank in October 2014, is currently a non-executive director of the Bank. His primary working experiences include: deputy director (in charge of the work) of the risk management office of Shenzhen Branch of China Construction Bank Corporation Limited, vice president (in charge of the work) of Futian Sub-branch, deputy general manager (in charge of the work) and general manager of the credit business department, general manager of the credit approval department, general manager of the corporate business department, assistant to the president and vice president of China Construction Bank Corporation Limited. Mr. Zhu is a director of Shenzhen Kondarl (Group) Co., Ltd., independent non-executive director of LVGEM (China) Real Estate Investment Co., Ltd., chairman of Bosum Asset Management Limited, chairman of Shenzhen Peng Ding Chuang Ying Financial Information Services Company Limited. Mr. Zhu, a certified public accountant and senior economist, obtained a doctoral degree in industrial economics from Zhongnan University of Economics and Law.

Mr. Qian Li, joined the Bank in July 2015, is currently a non-executive director of the Bank. His primary working experiences include: executive of the comprehensive research office, deputy chief of Secretary Office I and head and deputy chief of the Financial Office under the Government of Anhui Province and vice mayor of Huainan City Government. He currently serves as the general manager of Anhui Credit Guaranty Group Co., Ltd. He obtained a doctorate degree in political economics from Fudan University.

Ms. Lu Hui, joined the Bank in July 2015, is currently a non-executive director of the Bank. Her primary working experiences include: assistant to manager and deputy manager of the planning and financial department of Anhui International Trust & Investment Company, manager of planning and finance department and deputy chief accountant of Anhui Guoyuan Holding (Group) Company Ltd. She is currently the chief accountant of Anhui Guoyuan Holding (Group) Co., Ltd. Ms. Lu, a senior accountant, obtained a bachelor's degree in finance from Anhui University of Finance & Economics.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Directors (Continued)

Mr. Zhao Zongren, joined the Bank in October 2014, is currently a non-executive director of the Bank. His primary working experiences include: director of the office of Jining Branch, president of Qufu Sub-branch, vice president of Jining Branch, and chief of the planning office and the finance planning office of Shandong Branch of China Construction Bank Corporation Limited, deputy general manager of Shandong Branch and general manager of Guangxi Branch of China Cinda Asset Management Co., Ltd., and assistant to the president and chief supervisor of Sunshine Insurance Group Corporation Limited. Mr. Zhao is a vice chairman, executive director and chairman of labor union of Sunshine Insurance Group Corporation Limited. Mr. Zhao, a senior economist, obtained a research master's degree from the investment department of Dongbei University of Finance and Economics.

Mr. Qiao Chuanfu, joined the Bank in July 2015, is currently a non-executive director of the Bank. His primary working experiences include: general manager of Anhui Transportation Construction Investment and Development Corporation, head of office of World Bank Loan Project of the Department of Transportation of Anhui Province, chairman of Anhui Transportation Investment Group Company Limited, and general manager and vice chairman of Anhui Transportation Holding Group Co., Ltd. He is currently the chairman of Anhui Transportation Holding Group Co., Ltd. Mr. Qiao obtained an EMBA from Dongbei University of Finance and Economics. He is a senior economist.

Mr. Gao Yang, joined the Bank in December 2009, is currently a non-executive director of the Bank. Mr. Gao was the chairman of the board of directors of China Strategic Holdings Limited, and is the chairman of Zhongjing Industry (Group) Co., Ltd., Zhongjing Sihai Co., Ltd., and Zhongjing Xinhua Asset Investment Management Co., Ltd., director of WEALTH HONEST LIMITED and Zhongjing Xinhua Asset Investment Management (Hong Kong) Co., Ltd. and the chairman of Guosheng Huaxing Investment Co., Ltd. Mr. Gao studied hotel management at Meindl Vocational School in Vienna from March 1985 to March 1987 as an audit student.

Mr. Au Ngai, Daniel, joined the Bank in July 2013, is currently an independent non-executive director of the Bank. He was the deputy president of Bankers Trust New York Corporation, deputy manager director and general manager and partner of Newbridge Capital Limited, chief executive director of Bohai Rim Industry Investment Fund, assistance to president of A.T. Kearney Management Consultants, director of Shenzhen Develop Bank Co., Ltd. (now as "Ping An Bank Co., Ltd."). He is currently the chairman of Star Capital Partners Limited. Mr. Au obtained a master's degree in business administration from McGill University in Canada.

Mr. Dai Genyou, joined the Bank in October 2010, an independent non-executive director of the Bank. His primary working experiences include: vice president of Anqing Branch of the PBOC, division head of the first economic analysis division of investigation and research office of the headquarters, division head of the economic analysis division and then deputy director of the investigation and statistics department, director of the monetary policy department and secretary general of the monetary policy committee, director of the credit management department and director of the credit management center of the PBOC. Mr. Dai, a senior economist, obtained a bachelor's degree in political economy from Anhui Laodong University (the predecessor of Anhui University), and was an expert with special allowances from the State Council.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Directors (Continued)

Mr. Wang Shihao, joined the Bank in October 2011, is currently an independent non-executive director of the Bank. His primary working experiences include: deputy director and director of Shanghai Branch of the PBOC, director of Shanghai Urban Credit Cooperatives, vice president and director of Bank of Shanghai, director of City Commercial Bank Clearing Centre. Mr. Wang was employed as a special advisory expert for policy decision of Shanghai Municipal Government in March 2008. He is currently an independent director of Bank of Zhengzhou Co., Ltd. Mr. Wang, a senior economist, obtained a master's degree in economics from East China Normal University, a master's degree in business administration from the University of Arizona in the United States, an MBA certificate jointly granted by Shanghai Jiao Tong University and University Konstanz in Germany, as well as an EMBA certificate from Shanghai National Accounting Institute.

Mr. Zhang Shenghuai, joined the Bank in October 2011, is currently an independent non-executive director of the Bank. Mr. Zhang was the commissioner of the ninth session of the Public Offering Review Committee of CSRC. Mr. Zhang is now a director and senior partner of TianYin Lawyer Co., Ltd., and an independent director of Beijing Trust & Far Technology Co., Ltd., Sinoma Energy Conservation Ltd. and Huabei Expressway Co., Ltd. Mr. Zhang obtained a doctoral degree in law from Renmin University of China and is a lawyer qualified to practice in China.

Mr. Zhu Hongjun, joined the Bank in October 2014, is currently an independent non-executive director of the Bank. He was a lecturer, associate professor and associate dean at the School of Accountancy of Shanghai University of Finance and Economics. He is a professor, doctoral advisor and registrar at Shanghai University of Finance and Economics. He also serves as an independent non-executive director of Ningbo Huaxiang Electronic Co., Ltd. Mr. Zhu obtained a doctoral degree in accountancy from Shanghai University of Finance and Economics.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Supervisors



Mr. Zhang Renfu, joined the Bank in December 2005, is currently the chairman of the Board of Supervisors and an employee supervisor of the Bank. His primary working experiences include: executive director of the Bank, deputy director of the liaison division of the general office of Anhui Provincial Government, researcher at the third division of the secretariat of the general office of Anhui Provincial Government, deputy director of the fifth division of the general office of Anhui Provincial Government, deputy director of the secretariat and then deputy director of the second division of the secretariat of the general office of Anhui Provincial Government, and the deputy director in charge of the work of the finance office of Anhui Provincial Government. Mr. Zhang, a senior economist, obtained a master's degree in law from Renmin University of China.



Mr. Xu Chongding, joined the Bank in February 1997, is currently the chairman of labor union and an employee Supervisor of the Bank. Mr. Xu once worked as the director of the personnel division of Hefei City United Bank, director of the personnel division of Hefei City Commercial Bank Corporation Limited and general manager of the human resources department of the Bank. Mr. Xu obtained a bachelor's degree in education from Anhui Normal University.

Ms. Zhou Tong, joined the Bank in February 1997, is currently the employee representative supervisor and compliance department manager of the Bank. Ms. Zhou once worked as the president of Changjiang West Road Sub-branch and Mengcheng Road Sub-branch of Hefei City Commercial Bank, president of Changjiang West Road Sub-branch of Hefei branch, as well as an assistant to the president, vice president, vice president (in charge of work) and president of Anqing Branch of the Bank. Ms. Zhou, a senior economist, graduated from Nanjing University majoring in national economic management.

Mr. Cheng Rulin, joined the Bank in July 2013, is currently a shareholder supervisor of the Bank. His primary working experiences include: assistant to the director and then deputy director of Beijing Liaison Office of Hefei Municipal Government, deputy director of Hefei Key Project Office and vice president of Hefei Xingtai Holding Group Co., Ltd., during which he worked as deputy director of the comprehensive division in the Comprehensive Investigation and Research Department of the Economic Restructuring Office of the State Council. Mr. Cheng is the president, chairman of Hefei Xingtai Financial Holding Group Co., Ltd. and a director of Guoyuan Agricultural Insurance Co., Ltd. Mr. Cheng obtained a master's degree in management from the Australian National University.

Mr. Qian Xiaojun, joined the Bank in July 2014, is currently a shareholder supervisor of the Bank. His primary working experiences include: general manager of the operation department and the international department of Nanjing Branch of Huaxia Bank, manager of the planning and financial department of Jiangsu International Trust & Investment Corp., legal representative of Jiangsu Mingde Industrial Co., Ltd., vice chairman of Jiangsu Huijin Holding Group Co., Ltd. Mr. Qian is currently the chairman of Zhengyang Rural Small Loans Co., Ltd. at Pukou District, Nanjing and Nanjing Deyin Financing and Guarantee Co., Ltd., as well as vice chairman of Jiangsu Zhengyang Investment Holding Group Company Ltd. Mr. Qian graduated from the Graduate School of Chinese Academy of Social Sciences, majoring in international finance and trade.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Supervisors (Continued)

Ms. Cheng Junpei, joined the Bank in December 2009, is currently an external supervisor of the Bank. Her primary working experiences include: acting general manager of a German subsidiary of Metro Group, general manager of Swiss DKSH (Shanghai) International Trade and deputy general manager of Sinopharm Group Co., Ltd., managing director of Shanghai TianYi Consulting Co., Ltd., DeKangHang International Trading Co., Ltd. and general manager of Sinopharm Medicine Logistics Co., Ltd. and Sinopharm Holding Distribution Co., Ltd. She is currently the vice president of New Peak Group and CEO of No.1 Pharmacy Mall. She got a master's degree in business administration from Nyenrode Business University in the Netherlands.

Mr. Fan Libo, joined the Bank in December 2009, is currently an external supervisor of the Bank. He was the executive associate dean of Haier Business School of the University of International Business and Economics. He is currently a professor, doctoral advisor of International Business School and dean of the School of Public Administration of the University of International Business and Economics. He obtained a doctoral degree in economics from the University of International Business and Economics. Mr. Fan was awarded one of the National Candidates for the Project of Cultivating Millions of Talents for the New Century by the Ministry of Human Resources and Social Security in 2010 and one of the Experts Entitled to Special Government Subsidy by the State Council in 2012.

Ms. Pan Shujuan, joined the Bank in July 2013, is currently an external supervisor of the Bank. She is a professor in Anhui University of Finance & Economics. Her primary working experiences include: deputy head of Department of Finance, vice dean of the School of Economics and Finance and dean of the School of Finance of Anhui University of Finance & Economics, member of the Academic Committee and the Educational Committee of Anhui University of Finance & Economics, and director of the Professor Committee of the School of Finance of Anhui University of Finance & Economics. Ms. Pan is currently an independent director of Anhui Guang De Rural Commercial Bank. She got a bachelor's degree from Anhui Finance and Economics University (formerly known as Anhui Institute of Finance and Trade).

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Senior management

Mr. Wu Xuemin is an executive director and president of the Bank. See “Directors” section in this chapter for details of his biography.

Mr. Ci Yaping is an executive director and a vice president of the Bank. Please refer to “Directors” section in this chapter for details of his biography.



Mr. Gao Guangcheng, joined the Bank in February 1997, is currently a vice president of the Bank. His primary working experiences include: president of Huaihe Road Sub-branch of Hefei City Commercial Bank Corporation Limited, assistant to the president, vice president and then president of Hefei City Commercial Bank Corporation Limited, and president of Hefei Branch of the Bank. Mr. Gao, a senior economist, obtained a bachelor’s degree in economics from Anhui Finance and Economics University.



Mr. Zhang Youqi, joined the Bank in December 2005, is currently a vice president of the Bank. His primary working experiences include: working in Anhui Branch of the PBOC, vice president of Hefei Sub-branch of China Everbright Bank, chairman of the board of directors of Tongling Urban Credit Cooperatives, and executive director of the Bank, president of Tongling Branch of the Bank, general manager of the business department and the institutional management department of the Bank and secretary of the Board. Mr. Zhang, a senior economist, obtained a bachelor’s degree in economics from Anhui Finance and Economics University (formerly known as Anhui Institute of Finance and Trade), and a master’s degree in business administration from Renmin University of China.



Mr. Sheng Hongqing, joined the Bank in March 2015, is currently an assistant to the president and the chief investment officer of the Bank. He served as the deputy director at Hubei Institute for Nationalities, a manager of Huaxia Bank and a business manager and officer of China Everbright Bank. He is a holder of a doctorate degree in international economics from Chinese Academy of Social Sciences.



Mr. Yi Feng, joined the Bank in May 2009, is currently an assistant to the president and secretary to the Board of the Bank. His primary working experiences include: deputy director of the administration office of CCB Anhui Branch, president of CCB Huangshan Branch, director of the entrustment loan department of CCB Anhui Branch, general manager of the institution and investment banking department of CCB Anhui Branch, president of CCB Hefei Sanxiaokou Sub-branch, and president of CCB Hefei City West Sub-branch, assistant to president and president of Hefei Branch of the Bank. Mr. Yi, a senior economist, obtained a master’s degree in arts from Xiamen University.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.3 PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Senior management (Continued)



Mr. Xia Min, joined the Bank in February 1997, is currently an assistant to the president and president of Hefei Branch of the Bank. His primary working experiences include: assistant to the president of Changjiang Middle Road Sub-branch of Hefei City United Bank, president of Xiaoyaojin Sub-branch of Hefei City Commercial Bank Corporation Limited, general manager of the fund and finance department of Hefei City Commercial Bank Corporation Limited, assistant to the president and vice president of Hefei City Commercial Bank Corporation Limited, assistant to the president and general manager of the planning and finance department of the Bank, and assistant to the president and general manager of the assets and liabilities department of the Bank. Mr. Xia obtained a doctoral degree in economics from the Research Institute for Fiscal Science of the MOF.



Mr. Chen Hao, joined the Bank in December 2014, is currently the chief information officer of the Bank. His primary working experiences include: the cadre of the finance and accounting division and the computer department of the head office of Bank of China, EDP vice manager of New York office of Bank of China, deputy director and director of the software center of the head office of Bank of China, general manager of Bocsoft Information Industrial Co., Ltd. and software center of Bank of China concurrently, leader of receipt and payment working team, deputy general manager of the IT department, general manager of the e-banking department of Bank of China as well as a full-time supervisor of Bank of China (Russia). Mr. Chen, a senior engineer, obtained a master's degree in management information from the City University of New York.

8.4 THE ASSESSMENT INCENTIVE MECHANISM AND ANNUAL REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank provides remunerations to independent directors and external supervisors according to the Proposals on Subsidies to Independent Directors of the Bank and Subsidies to External Supervisors of the Bank, and provides remuneration to executive directors, employee supervisors and senior management according to the "Measures of Huishang Bank on Directors' Remuneration", the "Measures of Huishang Bank on Supervisors' Remuneration", and the "Measures of Huishang Bank on Senior Management's Remuneration."

The non-executive directors and shareholder supervisors do not receive any remuneration from the Bank.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.4 THE ASSESSMENT INCENTIVE MECHANISM AND ANNUAL REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

According to the "Performance Appraisal Measures of the Board of Supervisors of Huishang Bank on the Board of Directors and Directors", the "Performance Appraisal Measures of the Board of Supervisors of Huishang Bank on Senior Management and its Members", and the "Performance Appraisal Measures on the Board of Supervisors and Supervisors of Huishang Bank", the Board of Supervisors of the Bank assesses annually the duties performance by directors, supervisors and the senior management.

During the reporting period, the Bank did not have any situation where directors gave up or agreed to give up any remuneration as described in Rule 24A of Appendix 16 of the Hong Kong Listing Rules. The details of directors', supervisors' and senior management's remunerations received from the Bank for the year are stated in section 8.1 of this annual report. The top five highest paid individuals of the year are listed in Note 11 of the financial statements.

8.5 EMPLOYEE

As at 31 December 2016, the Bank had a total of 8,957 employees in service. The composition of employees is as follows:

1. Responsibilities:

		Number of employees	% of total
Responsibilities	Management	1,788	19.96%
	Marketing	5,268	58.82%
	Supporting	1,901	21.22%

2. Academic distribution:

		Number of employees	% of total
Academic structure	Master and above	1,234	13.78%
	Bachelor	6,663	74.39%
	Diploma degree and below	1,060	11.83%

Staff remuneration policy

The Bank's remuneration policy aims to establish a well-developed, scientific and efficient incentive and control mechanisms for realization of shareholders value and optimization of the Bank and employees' interest. The policy will stimulate stable operation and sustainable development. It is useful for meeting the strategic objectives, enhancing competitiveness, retaining talent and managing risk. By following the principle of being "advanced, sustainable, compliant, timely, and practical", the Bank will take initiatives and be creative, and prioritize efficient operation and fairness within the scope of unified rules and framework.

The Bank manages remuneration through three levels, namely the Board, senior management, head office and branches. The Board is responsible for the total amount of remuneration and senior management's remuneration. Under the Board's request, the senior management allocates the total amount of remuneration and drafts policy management of all branches. All branches manage employee salary within the scope of unified rules and framework.

Chapter VIII Profile of Directors, Supervisors, Senior Management, Employees and Institutions

8.5 EMPLOYEE (Continued)

Staff training plan

According to the spirits and planning of its work conference, the Bank keeps improving its education and training system by reference to its needs arising from business development and the transformation and upgrades of education and training tasks, aiming to secure talents with competence and intelligence in support of its development. During the reporting period, the training center of Huishang Bank commenced operation officially, the online training platform completed the second phase of optimization and changed its name into "Huiyin Internet School", and "Huiyin Academy" a mobile learning platform, was successfully launched. Meanwhile, the Bank continuously conducted internal trainer training and internal course development projects to enrich the faculty, implemented targeted training projects for staff at different levels across the Bank, and carried out all training works smoothly and efficiently. The Bank conducted a total of 909 concentrated training sessions in the year, amounting to 646,326.12 training hours with a total enrolment of 80,300. For the year, the hours and sessions per capita were 77.88 and 8.97 respectively.

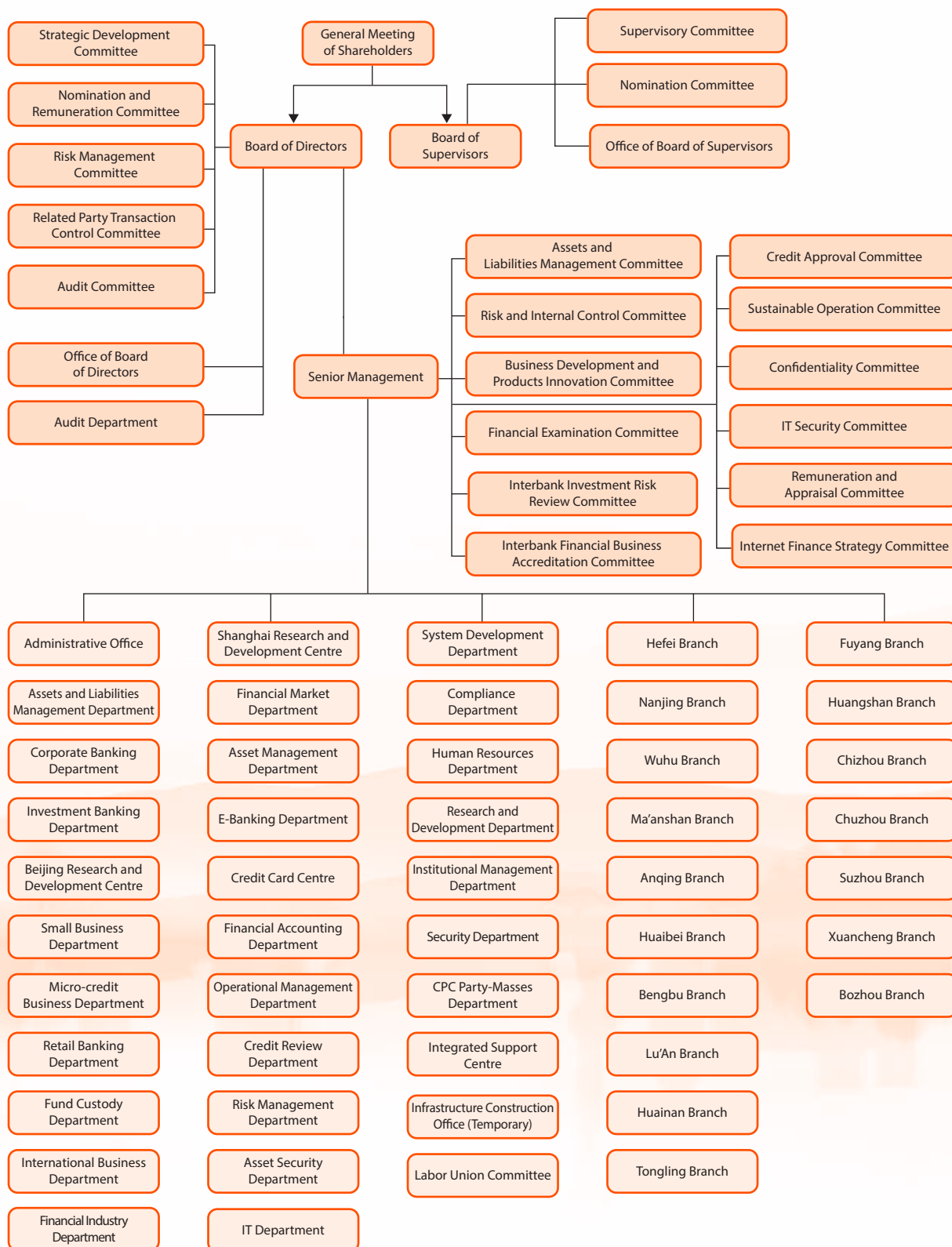
8.6 BRANCHES

As at 31 December 2016, the composition of branches of the Bank is as follows:

Region	Name of the Institution	Address	Postcode	Number of Branch
Head Office	Head Office	No. 79, Anqing Road, Hefei	230001	1
Anhui Province	Hefei Branch	No. 235, Anqing Road, Hefei	230001	86
	Wuhu Branch	No. 1, Beijing Road, Wuhu	241000	35
	Ma'anshan Branch	No. 3663, Taibai Road, Yushan District, Ma'anshan	243000	22
	Anqing Branch	No. 528, Renmin Road, Anqing	246000	33
	Huaibei Branch	No. 282, Huaihai Road, Huaibei	235000	22
	Bengbu Branch	No. 1018, Huaihe Road, Bengbu	233000	32
	Lu'an Branch	Kaixuan International Square, Meishan Nan Road, Lu'an	237000	26
	Huainan Branch	No. 39, Shungeng Xi Road, Huainan	232000	20
	Tongling Branch	No. 999, Yangjiashan Road, Tongling	244000	15
	Fuyang Branch	No. 666, Yidaohe Road, Fuyang	236000	25
	Huangshan Branch	No. 2, Tunguang Avenue, Tunxi District, Huangshan	245000	14
	Chizhou Branch	No. 515, Changjiang Zhong Road, Chizhou	247000	11
	Chuzhou Branch	No. 95, Longpan Main Road, Chuzhou	239000	13
	Suzhou Branch	No. 123, Yinheyi Road, Suzhou	234000	13
	Xuancheng Branch	No. 1, West Aofeng Road, Xuancheng	242000	17
Bozhou Branch	Xiangzhang Mansion, West Shaohua Road, Bozhou	236000	11	
Jiangsu Province	Nanjing Branch	No. 231, Zhongyang Road, Nanjing	210000	10
Total				406

Chapter IX Corporate Governance Report

9.1 CORPORATE GOVERNANCE STRUCTURE



Chapter IX Corporate Governance Report

9.2 CORPORATE GOVERNANCE

The Bank believes that maintaining high standards of corporate governance mechanisms and high quality corporate governance is one of the key factors to improve our core competitiveness and to build a modern commercial bank. Therefore, the Bank focuses on high quality of corporate governance, abides by the best domestic and international corporate governance practice, to ensure the rights and interests of shareholders and improve the value of the enterprise.

The Bank has established a relatively comprehensive corporate governance structure, clearly setting forth the responsibilities of general meeting, the Board of Directors, the Board of Supervisors and senior management, constantly improving the Bank's decision-making, execution and supervision mechanism so as to ensure the independent operation of various parties and an effective check and balance.

During the reporting period, except for the provisions of paragraph A.4.2 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, the Bank has strictly complied with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules. The Bank has also complied with most of the recommended best practices set out therein. According to the provisions of paragraph A.4.2 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The term of the third session of the Board of Directors, Board of Supervisors and senior management of the Bank is three years, which expired on 10 July 2016. As, among others, nomination process for part of directors nominated by shareholders has not yet been completed and candidates for part of directors are still in selection process, the Bank could not accomplish the re-election of the Board of Directors before the expiration of the third session of Board of Directors. The current directors, supervisors and senior management shall continue to perform their respective duties until the re-election work is completed.

The Bank has incorporated the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks issued by CBRC into the Bank's governance structure and policies. The Code and Guidelines are well reflected in the Bank's Articles of Association and the Terms of Reference of general meeting, Board of Directors and special committees. The general meeting, Board of Directors, Board of Supervisors and management performed their respective duties, and formed good corporate governance structure. The Bank ensured regulated operation according to the requirements of Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, and Guidelines on the Corporate Governance of Commercial Banks.

The Bank has also strictly complied with the management of insider information required by the relevant laws and regulations and the Hong Kong Listing Rules.

The Bank will review the corporate governance and strengthen management constantly to ensure compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and meet the higher expectations from the shareholders and investors.

Chapter IX Corporate Governance Report

9.2 CORPORATE GOVERNANCE (Continued)

The Board diversity policy

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

In respect of appointing the Board of Directors, the Bank will consider the diversity of the members in several aspects including but not limited to gender, age, culture, education background, region, professional experience, skills, knowledge, service term and other regulatory requirements, etc.

The Board members were appointed on the basis of their skills by taking into consideration the skills and experience required for smooth growth. In addition, the Bank thoroughly considers the goals and requirements for having a diversified Board of Directors.

Members of the Board of Directors will be selected according to a series of diversification benchmarks including but not limited to gender, age, culture, education background, region, professional skills, and knowledge and service term. The final decision will be made based on the candidate's specialty and his potential contribution to the Board.

The Nomination and Remuneration Committee of the Board is responsible for reviewing the structure, number of members, and composition of the Board of Directors. In addition, the Committee makes recommendations to the Board relating to the size and structure of the Board of Directors based on the Bank's strategic plans, business operations, asset size and shareholding structure. The Committee also discusses and reviews the selection standard, the nomination and appointment process, and makes recommendations to the Board of Directors. The candidates will be approved by the Board of Directors.

This policy needs to be followed when the Nomination and Remuneration Committee of the Board makes recommendations on the candidates or when the Board of Directors makes nomination. The Nomination and Remuneration Committee of the Board is responsible for monitoring the implementation of this policy and reviewing this policy at the appropriate time to ensure its effectiveness. The Nomination and Remuneration Committee will discuss any amendments when necessary and make recommendations to the Board of Directors for final approval.

During the reporting period, this policy was followed when the Nomination and Remuneration Committee made recommendations on the candidates and when the Board made nomination.

Chapter IX Corporate Governance Report

9.3 GENERAL MEETINGS

1. On 20 June 2016, the Bank held the 2015 annual general meeting in Hefei, at which the following resolutions were considered and approved:

The 2015 Final Financial Reports for Consideration and Approval

The 2016 Financial Budget for Consideration and Approval

The 2015 Profit Distribution Plan for Consideration and Approval

The Appointment of External Auditors for 2016 for Consideration and Approval

The 2015 Directors (including Independent Non-executive Directors) Performance Appraisal Report of the Board for Consideration and Approval

The 2015 Supervisors (including External Supervisors) Performance Appraisal Report of the Board of Supervisors for Consideration and Approval

The 2015 Work Report of the Board for Consideration and Approval

The 2015 Work Report of the Board of Supervisors for Consideration and Approval

The Resolution on Determination of the Remunerations Standards of the Bank's Executive Directors in 2014 for Consideration and Approval

The Resolution on Determination of the Remunerations Standards of the Former Chairman of the Board of Supervisors in 2014 for Consideration and Approval

The Resolution on the Authorization of Dealing with Matters Relating to Purchase of Liability Insurance of the Directors, Supervisors and Senior Management and the Liability Insurance of Prospectus Issued for the Initial Public Offering of A Shares by the Bank ("A Share Issue") for Consideration and Approval

The Resolution on the Amendment of Dilution of Current Returns as a Result of Issuance of A Share and Remedial Measures for Consideration and Approval

The Resolution on General Mandate for Issuance of Shares for Consideration and Approval

The Resolution on Extension of Valid Period of A Share Issue Proposal for Consideration and Approval

The Resolution on Extension of Valid Period of Authorization to the Board to Deal with the Specific Matters Relating to A Share Issue for Consideration and Approval

Chapter IX Corporate Governance Report

9.3 GENERAL MEETINGS (Continued)

1. On 20 June 2016, the Bank held the 2015 annual general meeting in Hefei, at which the following resolutions were considered and approved: (Continued)

The Resolution on the Bank's Non-public Offering of Offshore Preference Shares for Consideration and Approval

The Resolution on Amendments to the Articles of Association of the Bank for Consideration and Approval

The Mandate of the General Meeting to the Board for Consideration and Approval

The Mandate of Liquidity Assistance of the Subsidiaries for Consideration and Approval

The Resolution on Termination of the Bank's Proposal for the Non-public Offering of Offshore Preference Shares for Consideration and Approval

2. On 20 June 2016, the Bank held the first class meeting of Domestic shareholders in 2016 in Hefei, at which the following resolution was considered and approved:

The Resolution on the Bank's Non-public Offering of Offshore Preference Shares for Consideration and Approval

3. On 20 June 2016, the Bank held the first class meeting of H shareholders in 2016 in Hefei, at which the following resolution was considered and approved:

The Resolution on the Bank's Non-public Offering of Offshore Preference Shares for Consideration and Approval

The convening, notification, holding and voting procedures of the above meetings are in compliance with the Hong Kong Listing Rules, the Company Law, other relevant laws and regulations in China and the relevant provision of the Articles of Association of the Bank.

9.4 THE BOARD OF DIRECTORS

The Board of Directors is core to the corporate governance. The Bank adopts the president accountability system under the leadership of the Board of Directors. The Board is the independent decision-making body, which is responsible for implementing the resolution of the general meetings, formulating the Bank's major strategy, policy and development plan, approving the operation plan, investment plan and the Bank's internal management setup, formulating the annual financial budget, final accounts and profit distribution plan, appointing the senior management. The senior management has the rights to make decision in daily operation independently and the Board of Directors will not intervene specific daily affairs.

The Bank's Board of Directors emphasizes similarity in both externality and internality in system establishment and practical operation. With respect to the establishment of the Board's structure, the Bank makes the Board's decision more scientific and reasonable through the establishment of a diversified board structure, and improves the Board's efficiency in decision-making and operation through the efficient operation of the special committees. It adheres to grasping key points, direction and strategy in Board operation. During the reporting period, there were a total of 5 meetings convened and 57 resolutions considered. Constantly strengthening balanced, sound and sustainable development concept, the Board of Directors ensures the rapid, sustainable and sound development of the Bank through the effective management of the strategy, risk, capital, compensation and audit.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.1 Members of the Board of Directors

The Bank elects its Directors based on the qualification requirements and election procedures set out in the Articles of Association. As of 23 March 2017, the Board of Directors consists of 15 directors, including 3 executive directors, namely Li Hongming (chairman), Wu Xuemin (president) and Ci Yaping (vice president); 7 non-executive directors, namely Zhang Feifei, Zhu Jiusheng, Qian Li, Lu Hui, Zhao Zongren, Qiao Chuanfu and Gao Yang; 5 independent non-executive directors, namely Dai Genyou, Wang Shihao, Zhang Shenghuai, Au Ngai Daniel and Zhu Hongjun. The number of directors and the composition of the Board are in compliance with relevant laws and regulations. The decision making, authorization and voting procedures strictly follow the relevant rules and regulations of regulatory authorities and the Bank's Articles of Association. During the reporting period, the Board of Directors discharged its duties diligently, carefully reviewed all matters that were significant to the Bank's future development, improved the Board operation mechanism, strengthened the corporate governance framework, implemented organizational changes, facilitated prudent decision making, ensured financial stability and protected the interests of the Bank and its shareholders.

9.4.2 Appointment, re-election and removal of directors

According to the Bank's Articles of Association, Directors shall be elected or removed from office by shareholders at a general meeting. The term of office of a director shall be three (3) years, and a director may be re-elected and re-appointed upon expiry of his/her term of office. Subject to the relevant laws and administrative regulations, a director whose term of office has not expired may be removed by shareholders' ordinary resolution, without prejudice to any claim which may be instituted under any contract.

The term of service of non-executive directors and independent non-executive directors shall be the same as that of other directors of the Bank and they may be re-elected and re-appointed upon the expiration of their term of office, provided that such term of office of independent non-executive directors shall not be more than six (6) years on an accumulative basis.

The directors' appointment, re-election and removal procedures of the Bank are set forth in the Articles of Association. The Nomination and Remuneration Committee is responsible for discussing and reviewing the qualification and experience of each candidate and recommending the suitable candidates to the Board of Directors. After the approval from the Board of Directors, the selective candidates will be recommended for further approval by the general meeting of shareholders. Except for the independent non-executive directors who have to be treated separately due to the expiration of office, the other new directors will be re-elected by general meeting at the expiration of the term of that Board session (each session has a term of three years), instead of being elected during the first general meeting after his/her appointment.

The term of office of the third session of the Board of Directors, Board of Supervisors and senior management has expired on 10 July 2016. As, among others, nomination process for part of directors nominated by shareholders has not yet been completed and candidates for part of directors are still in selection process, the Bank could not accomplish the re-election work before the expiration of the third session of Board of Directors. The current directors, supervisors and senior management shall continue to perform their respective duties until the re-election work is completed.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.3 Responsibility of directors

During the reporting period, all the Bank's directors are prudent, earnest, and diligent to exercise their rights granted by the Bank and domestic and overseas regulatory authorities. The Bank's directors have spent adequate time and effort to deal with the Bank's affairs, ensuring the compliance of Bank's operation with the requirement of national laws, administrative regulations and the requirements of national economic policies. The Bank's directors have treated all the shareholders equally, informed themselves of the status of the Bank's business operation and management in a timely manner, implemented the laws and administrative regulations, departmental rules and other diligence obligations prescribed by the Articles of Association. The Board of Directors confirmed that they are responsible for the preparation of the annual financial report for the year ended 31 December 2016.

The independent non-executive directors of the Bank make full use of their respective professional expertise to provide professional and independent advices on the corporate governance, operation and management of the Bank in various Board committees, including the Strategic Development Committee, Nomination and Remuneration Committee, Risk Management Committee, Related Party Transaction Control Committee and Audit Committee, ensuring that scientific decision-making could be made by the Board of Directors.

The Bank also pays attention to the ongoing training of directors, to make sure they have proper understanding of the operation and business of the Bank and the duties and responsibilities conferred by the relevant laws and regulatory requirements of the CBRC, the CSRC, the Hong Kong Stock Exchange and the Articles of Association of the Bank. The Bank has bought the director liability insurance for all directors.

During the reporting period, the Bank carried out evaluation of the performance of directors by the Board of Directors, evaluation of the performance of Board of Directors and Directors by the Board of Supervisors, evaluation of the performance of senior management and its members by the Board of Supervisors, evaluation of the performance of Supervisors by the Board of Supervisors and mutual assessment of external supervisors.

9.4.4 The chairman and president

The role and responsibilities of the Bank's chairman and president are assumed by different persons, with their respective responsibilities clearly defined and in compliance with the requirements under the Hong Kong Listing Rules. Mr. Li Hongming, chairman of the Bank, leading and managing the Board of Directors, is responsible for managing the operation of the Board, ensuring that all directors are aware of the current issues within the Board of Directors meeting and that all important and relevant matters could be discussed by the Board in a timely and constructively manner. To assist the Board of Directors to discuss all important or other related matters, the chairman of the Board works with senior management to ensure that all directors receive timely, appropriate, complete and reliable information for their consideration and review.

Mr. Wu Xuemin serves as the president of the Bank, who is responsible for business operations, implementing the Bank's strategy and carrying out the business plan.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.5 Summary of the directors attending the general meetings, board meetings and board committee meetings

Directors	General Meeting ⁽¹⁾⁽²⁾	Attendance of the 2016 first class meeting	Attendance of 2015 annual general meeting	Board of Directors ⁽³⁾	Board Committees				
					Attendance of the 2016 first class meeting for H shareholders	Strategic Development Committee	Nomination and Remuneration Committee	Risk Management Committee	Related Party Transaction Control Committee
Actual attendance/Required attendance									
Executive Directors	Li Hongming	✓	✓	5/5	2/2	3/3	-	-	-
	Xu Demei ⁽⁵⁾	✓	✓	5/5	-	-	4/4	6/6	-
	Wu Xuemin	✓	✓	5/5	2/2	-	-	-	-
	Ci Yaping	✓	✓	5/5	-	-	4/4	-	-
Non-executive Directors	Zhang Feifei	-	-	5/5	2/2	-	-	-	3/3
	Zhu Jiusheng	-	-	4/5 ⁽⁴⁾	2/2	-	-	-	-
	Qian Li	-	-	4/5 ⁽⁴⁾	2/2	2/3 ⁽⁴⁾	-	-	-
	Lu Hui	✓	✓	5/5	2/2	-	-	-	-
	Zhao Zongren	✓	✓	3/5 ⁽⁴⁾	2/2	-	-	-	-
	Qiao Chuanfu	-	-	4/5 ⁽⁴⁾	-	-	3/4 ⁽⁴⁾	-	-
	Gao Yang	✓	✓	5/5	2/2	3/3	-	-	-
Independent Non-executive Directors	Dai Genyou	✓	✓	5/5	-	3/3	-	-	3/3
	Wang Shihao	-	-	4/5 ⁽⁴⁾	1/2 ⁽⁴⁾	-	3/4 ⁽⁴⁾	-	-
	Zhang Shenghuai	-	-	5/5	-	3/3	-	6/6	-
	Au Ngai, Daniel	-	-	5/5	-	3/3	-	6/6	-
	Fung Weichang ⁽⁵⁾	-	-	2/5 ⁽⁴⁾	2/2	1/3 ⁽⁴⁾	-	-	-
	Zhu Hongjun	-	-	4/5 ⁽⁴⁾	-	-	-	6/6	3/3

- Notes: (1) On 20 June 2016, the Bank held the 2015 annual general meeting, the 2016 first class meeting for domestic shareholders and the 2016 first class meeting for H shareholders in Hefei City, Anhui Province.
- (2) For directors who were unable to attend the 2015 annual general meeting, the 2016 first class meeting for domestic shareholders and the 2016 first class meeting for H shareholders due to personal reason, all of them have completed the formalities for leave application in writing.
- (3) During the reporting period, the Bank held 5 Board meetings in total.
- (4) If the actual attendance is lower than required attendance, it represents the proxy attendance when the above directors are absent from Board meeting in person.
- (5) For details of the position changes of Ms. Xu Demei and Mr. Fung Weichang, please refer to "Changes in Directors, Supervisors and Senior Management of the Bank" under section 8.2 of this annual report.

Chapter IX Corporate Governance Report

9.4 THE BOARD OF DIRECTORS (Continued)

9.4.6 Securities transaction by directors, supervisors and senior management

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuer ("Model Code") set out in Appendix 10 to the Hong Kong Listing Rules as its codes of conduct regulating securities transactions by the directors, the supervisors and the related employees (having the same meaning as defined in Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules) of the Bank. Having made specific enquiry of all directors, supervisors and the staff of senior management, the Bank confirmed that they had complied with the Model Code during the reporting period.

9.4.7 Performance of the independent non-executive directors

The Bank's Board of Directors consists of 5 independent non-executive directors and the qualification, number and proportion are in accordance with the regulations of the CBRC, the CSRC and the Hong Kong Listing Rules. The 5 independent non-executive directors are not involved in any conflict with the independence issue described in the Rule 3.13 of the Hong Kong Listing Rules. The Bank has received from each of the independent non-executive director the annual independence confirmation in accordance with the Rule 3.13 of the Hong Kong Listing Rules. Therefore, the Bank confirms that all the independent non-executive directors complied with the Hong Kong Listing Rules in respect of their independence. Independent non-executive directors represent the majority of the Bank's Nomination and Remuneration Committee, Audit Committee and Related Party Transaction Control Committee under the Board and serve as chairman of these committees. During the reporting period, the 5 independent non-executive directors kept in touch with the Bank through various means such as attending the meeting and symposiums. They earnestly participated in meetings of the Board of Directors and the Board committees and actively gave their opinions and emphasized on the interests of minority shareholders. The independent non-executive directors have fully discharged their responsibilities.

During the reporting period, the Bank's independent non-executive directors issued independent opinions on the Bank's related party transactions.

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS

The Bank's Board of Directors has delegated some of its responsibilities to the different Board committees. The Bank has set up 5 Board committees, including the Strategic Development Committee, Audit Committee, Nomination and Remuneration Committee, Risk Management Committee and Related Party Transaction Control Committee according to the relevant PRC laws, regulations, the Bank's Articles of Association and the Hong Kong Listing Rules.

During the reporting period, the Board committees exercised their respective authorities and powers in an independent, standardized and effective manner. In 2016, they held a total of 18 meetings, at which 79 resolutions that are significant to the sustainable development of the Bank and improvement of corporate governance, were studied and considered, improving the efficiency and scientific decision-making ability of the Board while promoting the sound development of the businesses of the Bank.

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.1 Strategic Development Committee

Our Strategic Development Committee consists of 2 executive directors, namely Mr. Li Hongming and Mr. Wu Xuemin; 6 non-executive directors, namely Mr. Zhang Feifei, Mr. Zhu Jiusheng, Mr. Qian Li, Ms. Lu Hui, Mr. Zhao Zongren and Mr. Gao Yang; and 1 independent non-executive director, namely Mr. Wang Shihao. Currently, Mr. Li Hongming is the chairman of the committee.

The principal responsibilities of the Strategic Development Committee include:

- formulating operational and management goals, medium to long-term development strategy and listing plans of the Bank and making recommendations to the Board;
- reviewing the strategic capital allocation and management objectives of assets and liabilities and making recommendations to the Board;
- preparing plans for the overall development of various financial businesses and making recommendations to the Board;
- reviewing strategic development plans for human resources and making recommendations to the Board;
- supervising and examining the implementation of annual operating plans and investment proposals;
- reviewing annual financial budgets and final reports and making recommendations to the Board;
- considering plans for significant institutional restructuring and re-organization and making recommendations to the Board;
- reviewing the plan of significant investment and financing and relevant proposals submitted by the senior management, and making recommendations to the Board;
- reviewing the design of merger and acquisition plans and relevant proposals submitted by the senior management, and making recommendations to the Board;
- reviewing plans for information technology development and other special strategic development plans and making recommendations to the Board;
- reviewing and evaluating the effectiveness of corporate governance structure so as to ensure that the financial reporting, risk management and internal control meet our standards for corporate governance;
- formulating the strategy, policy and objective for protection of consumer rights and interests across the whole Bank, and making recommendations to the Board;

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.1 Strategic Development Committee (Continued)

- reviewing the organizational structure and operating mechanism of works on protection of consumer rights and interests across the whole Bank, as well as the internal control system, and making recommendations to the Board;
- guiding the senior management in conducting works on protection of consumer rights and interests from the perspective of overall planning, supervising and evaluating the comprehensiveness, promptness and effectiveness of the works on protection of consumer rights and interests across the whole Bank and relevant duty performance of senior management, listening to special reports of senior management in respect of the progress of works on protection of consumer rights and interests on regular basis, and treating relevant works as an important part of information disclosure.

During the reporting period, our Strategic Development Committee held 2 meetings in total, at which resolutions on the proposal for non-public offering of offshore preference shares, annual final financial report, annual financial budget plan, annual general business operation plan, extension of term of the proposal for of the initial public offering and listing of A shares, etc. were considered and approved.

9.5.2 Nomination and Remuneration Committee

Our Nomination and Remuneration Committee consists of 1 executive director, namely Mr. Li Hongming; 2 non-executive directors, namely Mr. Qian Li and Mr. Gao Yang; and 3 independent non-executive directors, namely Mr. Dai Genyou, Mr. Zhang Shenghuai and Mr. Au Ngai, Daniel. Currently, Mr. Dai Genyou is the chairman of the committee.

The principal responsibilities of the Nomination and Remuneration Committee include:

- preliminarily reviewing the qualifications of candidates for directors and candidates for senior management (especially the chairman and president), and making recommendations to the Board;
- making recommendations to the Board on the structure, number, size and composition (including the skills, knowledge and experience) of the Board based on our business operation, asset scale and shareholding structure;
- identifying candidates with suitable qualifications to serve as directors and senior management, and establishing a mechanism for key talents pool;
- evaluating the independence of independent non-executive directors;
- developing appraisal criteria for directors and senior management, organizing performance appraisals for directors and senior management on a regular basis, and submitting the appraisal results to the Board;
- considering our remuneration management system and policies, preparing the appraisal and remuneration proposals for directors and senior management, making recommendations to the Board, developing policies and approval plans, and monitoring the implementation of such plans;

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.2 Nomination and Remuneration Committee (Continued)

- making recommendations to the Board on the remuneration package of individual executive directors and senior management. The factors that shall be considered by the committee include salaries paid by comparable companies, time commitment of directors and their responsibilities, employment conditions of other positions within the Bank and whether salaries should be determined on the basis of performance;
- reviewing compensation payable to executive directors and senior management for any loss or termination of office or appointment, and making recommendations to the Board;
- reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct, and making recommendations to the Board;
- ensuring that no director or any of his or her associates (defined under the Hong Kong Listing Rules) is involved in deciding his or her own remuneration.

During the reporting period, our Nomination and Remuneration Committee held 3 meetings in total, at which resolutions on the performance report of directors and senior management by the Board, the 2015 annual performance results of executive directors and senior management and matters on re-election, etc. were considered and approved.

Since Mr. Fung Weichang ceased to be a member of the Nomination and Remuneration Committee of the Bank from 20 March 2017, the Nomination and Remuneration Committee of the Bank comprises of six members, among whom three are independent non-executive directors. This does not comply with Rule 3.25 and the provisions of paragraph A.5.1 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules which requires a majority of membership of the Nomination and Remuneration Committee to be independent non-executive directors. The Board of Directors will use its best endeavors to identify a suitable candidate to fill the relevant vacancy as soon as possible to comply with the Hong Kong Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules as soon as practicable. For details of the position change of Mr. Fung Weichang, please refer to "Changes in Directors, Supervisors and Senior Management of the Bank" under section 8.2 of this annual report.

9.5.3 Risk Management Committee

Our Risk Management Committee consists of 1 executive director, namely Mr. Ci Yaping, 1 non-executive director, namely Mr. Qiao Chuanfu, and 1 independent non-executive director, namely Mr. Wang Shihao. Mr. Wang Shihao is the chairman of the committee.

The principal responsibilities of the Risk Management Committee include:

- reviewing our risk management policies to ensure they are in line with our overall strategy, supervising and evaluating their implementation and effectiveness, and making relevant recommendations to our Board;

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.3 Risk Management Committee (Continued)

- providing guidance on establishing our risk management systems;
- supervising and evaluating the establishment, organizational structure, working procedures and effects of the risk management department, and making suggestions for improvement;
- considering our risk report, conducting regular assessments on risk policy, management status and risk tolerance of the Bank, and making suggestions on improving our risk management and internal control;
- supervising and assessing the risk control by our senior management in respect of credit, market and operation risks;
- examining and approving significant risk management matters or transactions that are beyond the authority of the president or submitted by the president to the Risk Management Committee for consideration, in accordance with to the authorization of the Board.

During the reporting period, our Risk Management Committee held 4 meetings in total, at which issues related to work plan on risk limit management, risk supervision evaluation report, asset quality analysis, compliance risk management policies and credit policy execution report, etc. were studied.

9.5.4 Related Party Transaction Control Committee

Our Related Party Transaction Control Committee consists of 3 independent non-executive directors, namely Mr. Zhang Shenghuai, Mr. Au Ngai, Daniel and Mr. Zhu Hongjun. Mr. Zhang Shenghuai is the chairman of the committee.

The principal responsibilities of the Related Party Transaction Control Committee include:

- identifying related parties and connected persons, the relationship among them and with us and related party transactions and connected transactions, managing the risks arising from related party transactions and connected transactions;
- identifying and reviewing significant related party transactions and connected transactions, and submitting the same to the Board for consideration;
- formulating our rules for the management of related party transactions and connected transactions;
- submitting to the Board, upon completion of each year, a detailed report of the overall status, risk analysis and structure of our related party transactions and connected transactions that occurred in the year.

During the reporting period, our Related Party Transaction Control Committee held 6 meetings in total, at which it considered resolutions including the 2015 Work Summary and 2016 Work Arrangements of Related Party Transaction Control Committee under the Board, etc. and reviewed the 2015 Related Party Transaction Report of Huishang Bank.

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.5 Audit Committee

Our Audit Committee consists of 1 non-executive director, namely Mr. Zhang Feifei; and 2 independent non-executive directors, namely Mr. Zhu Hongjun and Mr. Dai Genyou. Mr. Zhu Hongjun is the chairman of the committee, and has the appropriate professional qualifications in accounting or relevant financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The principal responsibilities of the Audit Committee include:

- examining our financial statements, annual report and accounting records, interim report and quarterly reports (if drafted for publication), reviewing significant opinion on financial reporting contained in accounting statements and financial reports and other information related to our business operation, and conducting an audit on our operating efficiency, profit distribution and capital utilization;
- checking the letter of recommendations for management (or any equivalent document) given by an external auditor to the senior management and ensuring that the Board responds to it in a timely manner, and reviewing any major questions raised by the external auditor to the senior management with respect to our accounting records, financial accounts or monitoring system, and any responses given by the senior management;
- reviewing our disclosure made at the general meeting and to the public, and verifying the truthfulness, legality, completeness, and accuracy of our financial reports, capital utilization reports and major events;
- reviewing our internal control and financial control systems, and auditing our significant related party transactions, monitoring the implementation of our risk management system and its compliance, discussing the internal control system with the senior management and reporting it to the Board. Reviewing major investigation findings on matters relating to the internal control system as delegated by the Board or on its own initiative and the senior management's response to these findings;
- overseeing the implementation of our internal audit system;
- organizing and guiding the internal audit under the authorization of the Board;
- taking in charge of our annual audit, making recommendations to the Board on the appointment, re-appointment or removal of the external auditor, and preparing reports confirming the truthfulness, accuracy, completeness and timeliness of information contained in the audited financial statements based on its own judgment, and submitting them to the Board for discussion and consideration. The Audit Committee should require the appointed external auditor to give an explanation on their services provided, terms of appointment, fees charged and other relationships or matters that may affect the independence of such external auditor, make an evaluation on the independence of external auditor and submit it to the Board for approval. The Audit Committee should deal with any issue related to the resignation or removal of the external auditor;

Chapter IX Corporate Governance Report

9.5 COMMITTEES UNDER THE BOARD OF DIRECTORS (Continued)

9.5.5 Audit Committee (Continued)

- reviewing our financial and accounting policies and practice;
- taking charge of the communication and coordination between the internal auditor and external auditor, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Bank;
- evaluating the mechanisms for our employees to make whistle blowing on financial statements, internal control or other irregularities, and conducting independent and fair investigations on matters relating to whistle blowing by us, and adopting any mechanism for appropriate actions.

During the reporting period, our Audit Committee held 3 meetings in total, at which it considered resolutions on the 2015 annual report, the 2015 annual profit distribution plan, the 2016 interim report, appointment of external auditors and the 2016 audit plan etc. The Audit Committee reviewed the 2015 annual report and the 2016 interim report, discussed the key accounting policies, accounting estimates and internal control with the management. Besides, it also communicated with the external auditors and the management regarding the audit opinion and suggestions for internal control as proposed by the external auditors, reviewed and approved the 2015 annual report and the 2016 interim report of the Bank and then submitted them to the Board for consideration.

9.6 CORPORATE GOVERNANCE FUNCTION

During the reporting period, the Board of Directors took the responsibilities of corporate governance as follows:

- revising and improving rules and regulations related to the Bank's corporate governance, and making necessary changes to ensure the effectiveness of the policy;
- supervising the training of directors and senior management and their sustained performance;
- supervising the policies and practice of the Bank with respect to the compliance with laws and regulations;
- supervising the code of conduct and compliance manual applicable to directors and employees; and
- reviewing the Bank's compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and the disclosures set out in the corporate governance report.

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9.7 MANAGEMENT

The Bank shall have 1 president and may have several vice presidents. They shall be appointed or dismissed by the Board of Directors. The president shall be accountable to the Board of Directors.

The president of the Bank shall perform the following functions and powers: take charge of the daily operation and management of the Bank, organize the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors; submit annual business plans and investment proposals to the Board of Directors and organize the implementation upon approval by the Board of Directors; draft proposals on the establishment of the Bank's internal management entities; draft the Bank's basic management system; formulate the Bank's specific regulations; propose to the Board of Directors to engage or dismiss the vice presidents and other members of senior management of the Bank; engage or dismiss persons in charge of the internal departments and branches of the Bank other than those to be engaged or dismissed by the Board of Directors; authorize members of senior management and persons in charge of internal departments and branches to conduct operational activities; draw up the Bank's proposals on annual financial budgets and final accounts, profit distribution plan and loss remedial plan, increase or reduction of registered capital, issue and listing of bonds or negotiable securities, and put forward the proposals to the Board of Directors; review and approve general related transactions; decide on the appointment and dismissal of the Bank's staff, and approve proposals on their wages, benefits, rewards and punishment; formulate plans on emergency treatment and risk prevention; adopt emergency measures when any major emergency arises and promptly report them to the Board of Directors, the Board of Supervisors and the banking regulatory authority; and other powers and rights conferred by the laws, administrative regulations, departmental rules, the regulations of the relevant regulatory authorities, the Articles of Association and by the Board of Directors.

9.8 BOARD OF SUPERVISORS

The Board of Supervisors, our supervisory body, aims to guarantee the legitimate interests of the Bank, shareholders, employees, creditors and other stakeholders and has the obligation to oversee our financial activities, risk management and internal control, discharge of duties by the Board and its members and the senior management, and is accountable to the general meeting of shareholders.

9.8.1 Composition of the Board of Supervisors

As at the end of the reporting period, our Board of Supervisors currently consists of 8 supervisors, of whom 2 are shareholder supervisors, 3 are employee supervisors and 3 are external supervisors. The structure of our Board of Supervisors is reasonable, and is sufficiently professional and independent to ensure the effective performance of its supervisory role. For the biographical details of members of the Board of Supervisors, please see "Profile of Directors, Supervisors and Senior Management" under section 8.3 of this annual report.

During the reporting period, the Board of Supervisors fulfilled its duties diligently, supervised the legal compliance of performance of duties by directors and the senior management. They also performed resignation audit to the executive directors and the senior management as required. They audited and supervised the financial activities, risk management and internal control and investigated any abnormal operating activities.

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.2 Responsibilities and operating model of the Board of Supervisors

The principal responsibilities of our Board of Supervisors include: (1) reviewing periodic reports of the Bank prepared by the Board and providing written review opinions; (2) supervising the discharge of duties by the Board of Directors and the senior management; (3) monitoring the due diligence of directors, the chairman of the Board of Directors and the senior management and their violation of laws, administrative regulations as well as the Articles of Association when discharging their duties; (4) conducting resignation audits of our directors and the senior management when necessary; (5) requesting directors and the senior management to rectify any acts that are detrimental to the interest of the Bank; (6) examining and supervising financial activities of the Bank; (7) supervising and examining our business decision-making, risk management and internal control and monitoring rectification of the deficiencies; (8) proposing to remove, or instituting proceedings according to law, against directors and the senior management who are in violation of laws, administrative regulations or the Articles of Association or any resolutions adopted by shareholders' general meetings; (9) proposing for an extraordinary meeting of shareholders; convening and presiding over shareholders' general meetings when the Board of Directors fails to perform its duties in accordance with the Company Law; (10) putting forward proposals to shareholders' general meetings; (11) proposing for an extraordinary meeting of the Board; (12) reviewing the financial report, business report and profit distribution plans and other financial information submitted to shareholders' general meetings. The Board of Supervisors may conduct investigation when any question, or abnormal operation of the Bank is identified; it may, at the expenses of the Bank, hire an accounting firm, law firm or other professional personnel to assist its investigation when necessary; (13) making remuneration arrangement of supervisors; (14) other functions and powers granted by laws, administrative regulations, departmental rules, relevant regulators and the Articles of Association, as well as shareholders' general meetings.

Our Board of Supervisors fulfills their supervisory responsibilities mainly in the following manners: convening regular supervisor meetings, attending shareholders' general meetings, attending the Board meetings and some Board committee meetings, attending the relevant meetings of the senior management, review of various kinds of documents and materials from the senior management, listening to work report and project report of the senior management, evaluating the annual performance of directors and the senior management, facilitating communications with directors and the senior management, conducting resignation audits of our executive directors and the senior management, conducting on-site inspection of invested institution annually, conducting investigation and research on branches, carrying out a variety of special investigation etc. Through the above work, the Board of Supervisors monitors and evaluates our operation and management, risk management and internal control, as well as the performance of directors and the senior management.

During the reporting period, the Board of Supervisors assessed the annual performance of the Board of Directors, directors, the senior management and supervisors of the Bank, and held the symposiums of shareholders' representatives and persons in charge of the head office and sub-branch offices to elicit various comments and conduct on-site evaluation. Based on the foregoing, the Board of Supervisors prepared a performance evaluation report and feedback for the Board of Directors and the senior management as well as relevant banking regulatory bodies.

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9.8 BOARD OF SUPERVISORS (Continued)

9.8.3 Meetings of the Board of Supervisors during the reporting period

During the reporting period, the Board of Supervisors duly fulfilled its duties under the Articles of Association of the Bank and held 7 meetings, of which 4 were on-site, 1 was through telecommunications and 2 were circulating written documents, at which 28 resolutions were considered.

During the reporting period, there was no objection to the matters concerning the supervision of the Board of Supervisors.

The attendance of supervisors at meetings during the reporting period

	No. of Required Attendance	Attendance in Person	Attendance through Proxy
Zhang Renfu ⁽¹⁾	7	7	0
Xu Chongding	7	7	0
Zhou Tong	7	7	0
Cheng Rulin	7	7	0
Cheng Hong ⁽¹⁾	6	5	0
Qian Xiaojun	7	5	1
Pan Shujuan	7	7	0
Fan Libo	7	7	0
Cheng Junpei	7	6	1

Note: (1) For details of position changes of Mr. Zhang Renfu and Mr. Cheng Hong, please refer to "Changes in Directors, Supervisors and Senior Management of the Bank" under section 8.2 of this annual report.

During the reporting period, Mr. Cheng Hong was absent for certain reason from the eighteenth meeting of the third session of the Board of Supervisors and Mr. Qian Xiaojun was absent for certain reason from the twenty-first meeting of the third session of the Board of Supervisors.

9.8.4 Attendance at the general meetings during the reporting period

During the reporting period, the Board of Supervisors designated representatives to attend the general meeting of the Bank. Mr. Zhang Renfu as the chief scrutineer, supervised legal compliance of the content of meetings, procedures of meetings, as well as the voting process on-site. The Board of Supervisors presented its annual report on work and results of performance appraisal of Supervisors, which were approved at the meeting.

9.8.5 Attendance at the meetings of the Board and the senior management

During the reporting period, the Board of Supervisors designated representatives to attend on-site meetings and some meetings of the special committees of the Board of Directors, and supervised legal compliance of the meetings, procedures of voting, as well as the attendance, speech and voting of directors. The Board of Supervisors also designated representatives to attend the relevant meetings of the senior management and supervised the execution of resolutions of the Board by the senior management and the operating management activities conducted according to the Articles of Association and the authorization by the Board of Directors.

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9.8 BOARD OF SUPERVISORS (Continued)

9.8.6 Operation of the committees of the Board of Supervisors

The Board of Supervisors has a Nomination Committee and a Supervisory Committee, compositions of which are as follows:

No.	Committees of the Board of Supervisors	Chairman	Members
1	Nomination Committee	Cheng Junpei	Zhang Renfu, Xu Chongding, Pan Shujuan
2	Supervisory Committee	Pan Shujuan	Zhang Renfu, Cheng Rulin, Qian Xiaojun, Zhou Tong

Note: For details of position changes of Mr. Zhang Renfu and Mr. Cheng Hong, please refer to "Changes in Directors, Supervisors and Senior Management of the Bank" under section 8.2 of this annual report.

Nomination Committee of the Board of Supervisors

The principal responsibilities of the Nomination Committee include:

- (I) formulating the selection standards and procedures of supervisors, and making recommendations to the Board of Supervisors;
- (II) preliminarily reviewing the qualifications and conditions of candidates for supervisors and making recommendations to the Board of Supervisors;
- (III) improving market-oriented selection and appointment mechanism, and making reservation of candidates for supervisors;
- (IV) conducting a comprehensive assessment and evaluation of duties performance of directors and senior management, and reporting it to the Board of Supervisors;
- (V) supervising the process of election and appointment of directors;
- (VI) supervising the scientificity and reasonableness of the remuneration management system and policies of the Bank and the remuneration proposal for its senior management;
- (VII) determining the remuneration standards for supervisors and subsidy standards for external supervisors, and making recommendations to the Board of Supervisors in respect thereof;

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.6 Operation of the committees of the Board of Supervisors (Continued)

Nomination Committee of the Board of Supervisors (Continued)

- (VIII) establishing and improving the incentive and control system, conducting an assessment and evaluation of duties performance of supervisors, and making recommendations to the Board of Supervisors in respect thereof;
- (IX) ensuring that supervisors shall not participate in the decision-making process in connection with the evaluation of their duties performance and remuneration (or subsidies), save for the self-assessment in the evaluation of duties performance;
- (X) other matters authorized by the Board of Supervisors.

The Nomination Committee held a total of 7 meetings in 2016, at which 16 resolutions were considered and approved.

Supervisory Committee of the Board of Supervisors

The principal responsibilities of the Supervisory Committee include:

- (I) formulating plans for supervision of duties performance of Board of Directors and the senior management of the Bank, and supervising the adoption by the Board of Directors of prudent business philosophy, value standards and formulating development strategies that are in line with the actual situations of the Bank;
- (II) formulating plans for supervision of the due diligence of directors and the senior management of the Bank;
- (III) formulating plans for resignation audits of executive directors and the senior management of the Bank;
- (IV) formulating plans for the inspection and supervision of financial activities of the Bank;
- (V) formulating plans for supervision and inspection of the business decision-making, risk management and internal control of the Bank;
- (VI) formulating plans for assessing the scientificity, reasonableness and effectiveness of development strategies set by the Board of Directors;
- (VII) taking charge of the organization and implementation of the above (1) to (6) plans;
- (VIII) other matters authorized by the Board of Supervisors.

In 2016, the Supervisory Committee held 4 meetings in total, at which 10 resolutions were considered.

Chapter IX Corporate Governance Report

9.8 BOARD OF SUPERVISORS (Continued)

9.8.7 External supervisors work report

Chairman of the Board of Supervisors committees are served by external supervisors, which strengthens the role of external supervisors in performance assessment, internal control and other aspects of independent oversight functions, and plays a positive role in improving the management quality and governance structure.

In 2016, external supervisors actively participated in meetings, carefully studied and actively participated in discussions and decision-making of each issue, considered each issue from the perspective of the sustainable development of the Bank and protection of its shareholders' interests, carefully gave independent opinions, and fulfilled the responsibilities of external supervisors according to laws.

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

Trainings and research of directors

Some of directors took part in a seminar and training provided by Latham & Watkins with respect to corporate governance of directors, supervisors and senior management of companies listed in Hong Kong on 29 December 2016.

Some of directors took part in the credit risk management research carried out by the Bank in the first half of 2016, and visited the Fuyang Branch, Huainan Branch and Chuzhou Branch.

Some of directors took part in the credit risk inspection conducted by the Bank in the second half of 2016 and conducted on-site interviews with the relevant branch's leading bodies.

Investigation, research and training of the Board of Supervisors

During the reporting period, the Board of Supervisors commenced special investigation on the business development of the Bank's non-credit assets operations, and then prepared reports based on findings. Some of the Bank's supervisors participated in the investigation.

During the reporting period, the Board of Supervisors launched inspections over Wuwei Huiyin Rural County Bank Co. Ltd, Jinzhai Huiyin Rural Bank Co., Ltd, and Huiyin Financial Leasing Co., Ltd. Some of the Bank's supervisors participated in the inspections.

During the reporting period, the Board of Supervisors organized and carried out special training on the topic of "New Challenges Faced by China's Economic Liberalization". Some of our supervisors took part in the seminar and training with respect of the compliance of companies listed in Hong Kong provided by Latham & Watkins.

9.10 COMPANY SECRETARY UNDER HONG KONG LISTING RULES

Dr. Ngai Wai Fung is the Bank's company secretary under the Hong Kong Listing Rules. Dr. Ngai Wai Fung is a director and the chief executive officer of SW Corporate Services Group Limited. Dr. Ngai took part in relevant professional trainings for no less than 15 hours during the reporting period. Mr. Yi Feng, assistant to the president and secretary to the Board of the Bank, was the primary contact of Dr. Ngai during the reporting period.

Chapter IX Corporate Governance Report

9.11 ILLEGAL ACT REPORTS AND ALLEGATIONS

In 2016, the Bank did not have any material internal disputes.

9.12 COMMUNICATION WITH SHAREHOLDERS

Investors relationship

We place great importance over the Bank's shareholders' opinions and suggestions. We actively take part in all kinds of communication activities with investors and analysts in order to maintain a good relationship, and meet reasonable requirements by the shareholders in a timely manner.

For investors inquiries, please contact the Board of Directors at:

The Office of the Board of Directors of Huishang Bank Corporation Limited
Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, PRC
Telephone: +86-0551-62667787
Fax: +86-0551-62667787
E-mail: djb@hsbank.com.cn

Investors can read this annual report from our website (www.hsbank.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

Information disclosure

The Board of Directors and senior management of the Bank place great importance to the information disclosure. They rely on good corporate governance and internal control to provide timely, accurate and fair information for the investors. During the reporting period, no insider dealing of the Bank's shares was identified.

In accordance with the requirement of "Measures for the Information Disclosure of Commercial Banks", the Bank continuously improved the timeliness, accuracy and completeness of the information to be disclosed. During the reporting period, the full texts of the annual report and interim report in both English and Chinese are available on the website of the Bank. Meanwhile, the Chinese and English versions of the annual report and interim report are available for review by the investors and stakeholders in the Board of Directors' office of the Bank.

Chapter IX Corporate Governance Report

9.13 SHAREHOLDERS' RIGHTS

Convening extraordinary shareholders' meetings

When individual or joint shareholders of the Bank who have more than 10% of voting right present a written request, the Board of Directors shall hold an extraordinary shareholders' general meeting within 2 months from the date of the request:

The shareholders shall put forward proposals to the Board in writing. The Board of Directors shall, in accordance with laws, administrative regulations and the Articles of Association of the Bank, give a written feedback expressing an opinion of agreements or disagreements with the convening of an extraordinary shareholders' general meeting or a class shareholders meeting within 10 days from the date of receiving the proposal.

If the Board of Directors agrees to convene an extraordinary general meeting or class shareholders' meeting, it should issue a notice to call for a shareholders' general meeting within 5 days from the date on which the relevant Board resolution is made. Any amendments to the original proposal in the notice should obtain the consent from the shareholders of the Bank who initiated such proposals.

Proposing resolutions at shareholders' general meeting

Shareholders individually or jointly holding more than 3% of the voting shares of the Bank may make provisional proposal to the shareholders' general meeting and submit written request to the convener 10 days before the meeting. The convener shall issue a supplementary notice of the general meeting within 2 days after receiving the proposal. The contents of the provisional proposal will be announced.

Shareholders individually or jointly holding more than 3% of the voting shares of the Bank may propose candidates for directors to the Board of Directors or to propose candidates for supervisors to the Board of Supervisors.

Shareholders individually or jointly holding more than 1% of the outstanding voting shares of the Bank may nominate candidates for independent directors to the Board, who can be elected at shareholders' general meeting as independent directors. Those shareholders who have nominated directors shall not nominate independent directors.

Shareholders individually or jointly holding more than 1% of the outstanding voting shares of the Bank may nominate candidates for external supervisors, who will be elected at shareholders' general meeting as external supervisors.

Convening extraordinary Board meetings

When shareholders individually or jointly holding more than 10% of the total voting shares raise a proposal, the chairman of the Board of Directors shall, within 10 days after receiving the proposal, call for and preside over an extraordinary board meeting.

Chapter IX Corporate Governance Report

9.13 SHAREHOLDERS' RIGHTS (Continued)

Making inquiries to the Board

Our shareholders are entitled to supervise the business activities of the Bank, make recommendations or inquiries.

Shareholders are entitled to access to the following information in accordance with the laws, administrative regulations, departmental rules, normative documents, relevant regulations of the securities supervision authorities of the place(s) where the shares of the Bank are listed, and the provisions of the Articles of Association, including:

1. Obtaining the Articles of Association of the Bank upon the payment of costs;
2. Inspecting, free of charge, or having the right to inspect and copy the following documents upon the payment of reasonable costs:
 - (1) the register of all shareholders;
 - (2) personal information of directors, supervisors and the senior management of the Bank;
 - (3) the Bank's share capital;
 - (4) report showing the total nominal value, quantity, highest and lowest prices of each class of shares repurchased by the Bank since the previous financial year and all costs paid by the Bank in this regard;
 - (5) minutes of shareholders' general meetings;
 - (6) the latest audited financial statements, and reports of the Board of Directors, auditors and the Board of Supervisors.

Shareholders who request to inspect any such information or obtain data shall provide written documentation to the Bank, certifying the type of shares they held in the Bank as well as the number of their shareholdings. The Bank shall provide such documentation as required by shareholders after their identities are verified.

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9.14 APPOINTMENT OF CERTIFIED PUBLIC ACCOUNTANTS

The Resolution on Appointment of External Auditors for 2016 was considered and approved at the first meeting of the Audit Committee of the Bank in 2016 held on 23 March 2016 and at the twenty-second meeting of the third session of Board held on 28 March 2016, and was then considered and approved at 2015 annual general meeting held on 20 June 2016. The Bank has appointed PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers as our domestic auditor and international auditor for the year of 2016, respectively.

In the view that PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers can complete various engagements of the Bank satisfactorily, stick to the principles of independence, objectivity and impartiality and comply with the related accounting principles and ethical requirements for accountants, and are diligent and responsible when conducting the audit work. The Bank has appointed PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers as its domestic auditor and international auditor respectively for three consecutive years without any changes to such appointments.

In 2016, the total amount of remuneration paid to PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers for audit of the annual financial statements and A Share IPO related service as agreed by the Bank was RMB6.25 million, and other remuneration (including the fees for reviewing the interim financial statements and related to the issuance of offshore preference shares and bonds) was RMB1.995 million.

9.15 AMENDMENTS TO THE ARTICLES OF ASSOCIATIONS OF THE BANK

At the twenty-second meeting of the third session of the Board held on 28 March 2016, the Resolution on the Scheme of Non-public Offering of Offshore Preference Shares of Huishang Bank Corporation Limited was considered and approved. The resolution was also considered and approved at the 2015 annual general meeting, the 2016 first class meeting for domestic shareholders and the 2016 first class meeting for H shareholders held on 20 June 2016. According to the Guiding Opinions of the State Council on Carrying out the Pilot Program of Preference Shares, Guiding Opinions on Preference Shares Issuance of Commercial Banks to Replenish Tier - 1 Capital by CBRC and CSRC and relevant laws, regulations and other normative documents and by reference to the Administrative Measures on the Pilot Scheme of Preference Shares, the Bank amended some provisions in the Articles of Associations of Huishang Bank Corporation Limited based on its practical circumstances. This amendment to the Articles of Associations was considered and approved at the twenty-second meeting of the third session of the Board held on 28 March 2016 and the 2015 annual general meeting held on 20 June 2016 and approved by the "Approval from CBRC Anhui Bureau Concerning the Issuance of Offshore Preference Shares and Amendments to the Articles of Association by Huishang Bank Corporation Limited" (Wan Yin Jian Fu [2016] No.109) issued by the Anhui Bureau of CBRC on 12 September 2016, and the amended Articles of Associations of the Bank formally came into effect after the issuance of offshore preference shares on 10 November 2016. For details, please see the Bank's announcement dated 28 March 2016, circular dated 12 April 2016 and announcements dated 31 October 2016 and 10 November 2016.

Chapter IX Corporate Governance Report

9.16 COMPLIANCE AND RISK MANAGEMENT

1. Procedures for identification, evaluation and management of material risks

Pursuant to the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) and its schedules issued by the CBRC, the definition of risk and relevant terminology issued by Basel Committee and practices of other banks in the PRC and overseas, the Bank has made overall identification of a series of potential quantifiable and non-quantifiable risks arising from the coupled effect of business strategies, product mix, clients' needs and external macro-economy environment and measurement and control of existing risks based on its own circumstances.

Through collecting and issuing risk alerts, setting examples of and identifying, gathering and evaluating risk events and specifying key risks based on capital allocation to risk categories, regulatory identification of potential risks and requirements on capital for banks and identification and evaluation of risk events, the Bank annually selects the sensitive areas, key branches and key potential risks to carry out the risk identification and evaluation and covers the overall risk areas triennially. Besides, the Bank makes supplement or revision to relative systems according to the evaluation results. Such key potential risks include credit risk, market risk, operational risk, liquidity risk, bank account interest rate risk, compliance risk, legal risk, reputation risk and strategic risk, which were quantified and evaluated through specific measurement methods and tools.

2. Key features of risk management system of the Bank

(I) Systemic structure

The Bank has a comprehensive risk management information system mainly comprised of three layers, namely business application, risk analysis and midway data.

1. The business application includes: the core system, credit management system, credit card related systems, capital transaction system, risk mitigation management system and loss database.
2. The risk analysis includes: the internal rating system on corporate clients, retail internal rating/rule engine tools, market risk management information system, asset and liability management system, portfolio risk quota management system, asset impairment provision system and tools for measuring associated risks among the systems.
3. The midway data includes: corporate database for storing and pooling business-related data of the whole Bank for easy indexing data in details.

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9.16 COMPLIANCE AND RISK MANAGEMENT (Continued)

2. Key features of risk management system of the Bank (Continued)

(II) Key features

The risk management system of the Bank was designed and developed by customizing practices of advanced domestic banks based on its strategic development planning and practical circumstances, with key features as follows:

1. Sound systems and data supported mechanisms under the comprehensive risk management system to underpin relevant decision-making on risk management of the Bank;
2. Collection, records and storage of relevant data to a certain breadth and depth with emphasis on completeness, accuracy and truthfulness to support the internal rating system, calculation of capital and relevant management and regulatory reporting of the Bank;
3. Tools improving systems of the Bank to support risk measurement and calculation of capital;
4. A sound data management system of the Bank to ensure the accuracy, completeness and adequacy of risk management data.

3. Key features of internal control system

The Bank attaches great importance to the implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines and the “Guidelines for Internal Control of Commercial Banks” in a consistent manner, and has continued establishing the internal control management system from five key aspects in three layers, including corporate governance, business line management and procedural operation – which horizontally cover our business processes and management activities of various business lines and vertically cover the managing bodies of the head office, branches and sub-branches and all employees. The internal control management structure was equipped with well-defined duties and responsibilities which clarified internal control management duties of the Board, the Board of Supervisors and senior management and three defense lines. Under the structure, the Board of Directors was responsible for ensuring the Bank to establish and implement adequate and effective internal control system, the Board of Supervisors was responsible for overseeing the establishment and implementation of internal control by the Board of Directors and senior management, and the senior management was responsible for organizing the day-to-day internal control operation of the Bank. The Bank strengthened its management of the operation of the internal control system by regularly reorganizing internal control and relevant self-assessment to identify the issues and deficiencies in the implementation thereof. Through prompt rectifications and corrections on internal control, the Bank continuously improved and optimized its internal control system so as to support its business development. The Bank has also established an internal control compliance risk management system covering three key modules, namely internal control, compliance management and legal affairs, which enables the Bank to basically achieve a new compliance management model featured by systems, procedures and information technologies. The use of such systems has enabled the Bank to make use of information and digital technologies in its internal control management, strongly supporting the breadth and depth of internal control compliance analysis.

Chapter IX Corporate Governance Report

9.16 COMPLIANCE AND RISK MANAGEMENT (Continued)

4. Risk management duties of the Board

The Board of the Bank has formulated the “Measures on Market Risk Management for Huishang Bank (Trial)”, “Basic Norms of Internal Control for Huishang Bank (Trial)” and other rules on the basis of laws and regulations such as the “Commercial Banks Internal Control Guidelines” and other laws and regulations, as well as the relevant requirements of the Hong Kong Stock Exchange in order to establish and implement a risk management and internal control system and undertake prompt review of the effectiveness of such systems. The Board of the Bank are of view that, the risk management and internal control system established and implemented by the Bank are sufficient and effective. The purpose of the risk management and internal control system of the Bank is to manage rather than eliminate such risks as would prevent the Bank from achieving its business goals, and such system reasonably (rather than absolutely) ensures that there would not be any material misrepresentation or loss.

9.17 PROCEDURES AND REGULATORY MEASURES FOR HANDLING INSIDER INFORMATION

The Bank places great importance on insider information management. In order to strengthen relevant confidentiality and protect the legitimate interests of investors by maintaining fairness with regard to information disclosure, the Bank formulated the Insider Information and Insider Management System of Huishang Bank Corporation Limited and the Measures on Information Disclosure Management of Huishang Bank Corporation Limited pursuant to domestic and offshore laws and regulations such as the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China, Rules on Establishment of Insider Registration and Management System of Listed Companies, Measures for the Information Disclosure of Commercial Banks, the Hong Kong Listing Rules and other regulatory documents including laws and regulations and listing rules on securities or other regulatory documents of places and stock exchanges where the securities of the Bank are listed.

Pursuant to laws and regulations of places where the securities of the Bank are listed, the Insider Information and Insider Management System of Huishang Bank Corporation Limited expressly provides for the scope of operational, financial or other information that may have a material impact on the market price of securities of the Bank but has not yet been made available on any media for information disclosure designated by securities regulating authorities and the definition of insiders in connection thereof, as well as detailed requirements on management of insiders, confidentiality of such information and punishment measures for divulgence thereof.

The Bank discloses its information in strict accordance with regulatory requirements. The Measures on Information Disclosure Management of Huishang Bank Corporation Limited expressly provide for basic principles of information disclosure, including the disclosure principles in prospectuses, offering circulars, listing documents, regular reports and interim reports, and explicitly requires that information disclosure of the Bank be unifiedly managed and undertaken by the Board, while the chairman and the president be the persons ultimately responsible and the secretary to the Board be the main person-in-charge. The Measures also provide for detailed requirements on information disclosure duties of directors, supervisors, senior management and persons-in-charge of branches.

As the general administrative body with respect to information disclosure, the office of the Board of Directors has always strictly complied with domestic and offshore regulatory requirements, kept strengthening system management and promptly and appropriately disclosed relevant information.

Chapter X Internal Control

10.1 INTERNAL CONTROL

10.1.1 Internal control system and operation

The Board of Directors of the Bank is responsible for ensuring the Bank to establish and implement an adequate and effective internal control system. The Board of Supervisors is responsible for the supervision of establishment and implementation of internal control system by the Board of Directors and senior management, and the management is responsible for the organization of the day-to-day operation of the internal control system of the Bank. The Bank has revised the “Basic Norms of Internal Control for Huishang Bank” on the basis of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines, the “Commercial Banks Internal Control Guidelines” and other laws and regulations, as well as the relevant requirements of the Hong Kong Stock Exchange to clarify the objectives, principles and organization of the internal control system, thereby setting up an internal control system comprised of five key elements, namely the internal environment, risk assessment, control activities, information and communication, and internal monitoring.

During the reporting period, the Bank launched campaigns such as “Better Management Year (Phase II)”, “Review of Internal Control and External Supervision Enhancements & Irregular Operation and Crime Containments”, Annual Case Prevention Work Assessment for 2015, Internal Control Operation Assessment on Huinong sub-branches, Compliance Risk Identification and Assessment for the First Half of 2016 and improvement of anti-money laundering management system as well as other activities. The Bank commenced the establishment of a comprehensive risk management system and further improved market risk, credit risk and operational risk management system. Therefore, the internal control system operated effectively. In addition, the Bank has conducted self-assessment on the internal control of major businesses and six branches. After inspection by the Board, no significant deficiencies regarding the integrity, rationality and effectiveness of the internal control were identified. The Bank focused on enhancing the establishment of regulatory framework, and continued to improve its compliance review system.

10.1.2 Implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines in a consistent manner

The Bank places great importance to the implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines in a consistent manner. Firstly, it has defined internal control and management systems and internal control duties of the operational divisions, business lines management department and compliance department to further clarify the relevant organizational structure and duty allocation of internal control. Secondly, it has organized assessment on internal control operation assessment of Huinong sub-branches, covering 40 Huinong sub-branches and 120 financial service rooms, and carried out on-site testing against 6 branches, i.e. Wuhu, Lu’an, Anqing, Xuancheng, Fuyang and Suzhou branches, so as to comprehensively assess the internal control management status of Huinong sub-branches and financial service rooms and improve the internal control management system of inclusive finance. Thirdly, it has organized consolidated administration of internal control assessment on institutions. It has conducted comprehensive assessments on the construction of internal control system under consolidated administration of the Bank as well as that of our three subsidiaries, namely, Wuwei Huiyin Rural Bank Co., Ltd., Jinzhai Huiyin Rural Bank Co., Ltd. and Huiyin Finance Leasing Co., Ltd. which have been included in consolidated administration. To facilitate the development of our subsidiaries in a compliant and stable manner and realize the diversified development strategy of the Bank, the Bank has conducted an overall review and evaluation on the construction of internal control of its subsidiaries, established a normalized supervision and management mechanism for internal control for its subsidiaries, and further improved the management system of external investment institutions. Fourthly, it has conducted specific assessments on internal control of interbank business. In practical terms, it has conducted assessments on interbank RMB business with investment and financing as the core between the Bank and peering financial institutions during the period from 1 January 2015 to 31 August 2016, focusing on the five elements of internal control in respect of four aspects, namely, management and control on business base, management and control

Chapter X Internal Control

10.1 INTERNAL CONTROL (Continued)

10.1.2 Implementation of the “Basic Norms of Internal Control for Enterprises” and its relevant guidelines in a consistent manner (Continued)

before and during business implementation and management and control on daily business, covering the whole process management of interbank business, so as to further improve the internal control management system of interbank business. Fifthly, it has organized bank-wide self-assessments on internal control for 2016, covering business categories, key business lines and six branches of the Bank. Based on results of the self-assessment, the design and execution of the internal control of the Bank were good, with basically sound internal control mechanisms and effective execution of control measures.

10.2 INTERNAL AUDIT

The Bank has implemented internal audit system, set up an internal audit department which consists of four audit segments by region, and established independent and vertical management system for audit as well as the corresponding reporting system and lines for internal audit, which enabled the establishment of a complete internal audit system comprised of detailed standards, internal requirements and work manual based on internal control audit rules. It has established an audit model which combines on-site audit and off-site monitoring. It has formulated audit plan and annual audit plan and carried auditing activities efficiently in accordance with the audit plan and annual plan approved by the Board of Directors. The Bank's internal audit department is responsible for auditing and supervising the Bank's financial revenue and expenditures and business activities, investigating, evaluating and facilitating the Bank's business activities, risk profile, internal control and corporate governance status through systematic and standardized methods with a view to promoting the sound development of the Bank. The internal audit department shall, in accordance with the audit procedures, issue audit reports to the senior management in a timely manner and submit the Report on Audit Work for 2016 to the Board of Directors and the Board of Supervisors in accordance with the reporting procedures on a timely basis.

In 2016, the Bank's internal audit department continued to adhere to the audit philosophy of “risk-oriented, service-teneted and appreciation-aiming” and act around the overall development strategy of the Bank to speed up the transformation and upgrading of our internal audit, improve the audit organizational structure, enhance the audit and supervision capacity and play the role of internal audit with a view to achieving the overall work objective of “focusing on transformation and upgrading, supported by leading innovation and management promotion”, building financial brands and speeding up structural adjustments for 2016. It has conducted on-site audit through various audit forms such as agency audit, special audit, economic responsibility audit, internal control evaluation and specific audit investigation, and implemented off-site monitoring through data analysis and inspection of suspicious circumstances to strengthen supervision of key businesses, key aspects, key risks and key positions. In addition, our internal audit department has put forward certain specific opinions on rectifications and recommendations for improvements, and enhanced the follow-up works to implement rectification measures, apply findings of the audit and further promote the Bank to enhance its internal control and risk management as well as refine its management.

10.3 EVALUATION ON EFFECTIVENESS OF INTERNAL CONTROL SYSTEM

At the end of 2016, as instructed by the audit committee under the Board, the Bank carried out internal control self-assessment for 2016 and issued a relevant report pursuant to requirements on internal control evaluation of commercial banks under “Commercial Banks Internal Control Guidelines” issued by the CBRC. The self-assessment represented an overall evaluation on the business, units and risk management policies of the Bank and the report was reviewed by the audit department. Huishang Bank 2015 Internal Control Assessment Report was considered by the audit committee and Board of the Bank respectively, which believed that this report has fully reflected the internal control situation of the Bank, and fully assessed internal control management and execution of various business lines and branches. The Board of the Bank has reviewed the 2016 internal control system of the Bank, and is in view that such system is effective and adequate.

Chapter XI Report of the Board of Supervisors

During the reporting period, the Board of Supervisors supervised the Bank's internal control, risk management, financial activities, legal compliance of operations, as well as the performance of duties of the Board of Directors and senior management in accordance with the Company Law, Guidelines for the Corporate Governance of Commercial Banks, Guidelines for the Work of the Boards of Supervisors in Commercial Banks and the responsibilities defined by the Bank's Articles of Association.

The Board of Supervisors has expressed an independent opinion on following matters:

1. Operation in accordance with laws and regulations

During the reporting period, the Bank's operation and management complied with the provisions of laws and regulations such as the Company Law, regulatory requirements and the Articles of Association of the Bank. The decision-making procedures of the Board of Directors were standardized and in conformity with laws. The senior management operated and managed the Bank in compliance with laws and regulations, the authorizations of the Board of Directors and the Bank's rules and regulations. The Board of Directors and senior management fulfilled their duties diligently. No act in violation of laws and regulations and detrimental to the interests of the Bank was identified when they fulfilled their duties.

2. The truthfulness of financial report

The Bank's 2016 annual financial report has been audited by PricewaterhouseCoopers in accordance with the International Financial Reporting Standards and a standard audit report with unqualified opinions has been issued. The financial report truly, objectively and accurately reflects the Bank's financial activities and operating results.

3. Related party transactions

The Board of Supervisors is not aware of any related party transactions of the Bank occurring during the reporting period which would damage the interests of shareholders and the Bank.

4. Internal control

During the reporting period, the Bank insisted on the value of putting internal control as its priority, organized campaigns such as Review of Internal Control and External Supervision Enhancements & Irregular Operation and Crime Containments, Better Management Year and Special Assessment on Case Prevention, improved the rules and regulations and strengthened the establishment internal control system. Internal control mechanisms were basically sound.

5. Risk management

During the reporting period, the Bank steadily promoted the comprehensive risk management system, enhanced risk management structure and improved risk management policies. It also optimized risk management procedures, upgraded risk management instruments. Asset quality was well controlled under complex economic environment. The Bank continuously optimized its liquidity risk management tools, enhanced the standard for identification, inspection and measurement of liquidity risk, and strengthened liquidity emergency management. Various regulatory indicators of the Bank remain at a stable level. The overall risk exposure of the Bank was under control.

Chapter XI Report of the Board of Supervisors

6. Implementation of resolutions passed at general meetings

The Board of Supervisors had no objection to the reports and resolutions submitted by the Board of Directors to shareholders' general meetings in 2016 for review, and supervised the implementation of the resolutions adopted by general meetings. The Board of Supervisors was of the view that the Board of Directors had well implemented the relevant resolutions passed at general meetings.

By Order of the Board of Supervisors

Zhang Renfu

Chairman of the Board of Supervisors

23 March 2017

Chapter XII Financial Report

Huishang Bank Corporation Limited
Auditor's Report and Consolidated Financial Statements
31 December 2016



Independent Auditor's Report



羅兵咸永道

To the Shareholders of Huishang Bank Corporation Limited
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Huishang Bank Corporation Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 139 to 244, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditor's Report

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Impairment allowance of loans and advances to customers
- Consolidation assessment of structured entities

Key Audit Matter

Impairment allowance of loans and advances to customers

Refer to Note 3.2 "Critical Accounting Judgments and Estimates" and Note 22 "Loans and Advances to Customers" to the Consolidated Financial Statements.

As of December 31, 2016, the aggregated balance of loans and advances to customers is RMB277.37 billion, with impairment allowances of RMB8.03 billion.

The Bank assesses whether there are objective evidences of impairment exist for the loans and advances to customers that are individually significant. If there's no objective evidence of impairment for individually assessed loans and advances or the individual loans and advances with insignificant amounts, then the Bank will include them in a portfolio of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Those loans and advances which are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment.

How our audit addressed the Key Audit Matter

We have evaluated and tested the controls the Bank has established to support the impairment allowance calculation on loans and advances to customers. Key control includes but not limited to identification of impaired loan and advances to customers in timely manner.

In addition, we have performed the following substantive procedures:

We have selected samples for credit profile review with focus on the loans with significant amount, overdue loans as well as loans and advances with insignificant amount but exposure to high credit risk.

We independently assess whether there is objective evidence that an impairment exists on the samples selected by carrying out the following testing:

- Review the Bank's analysis of the borrowers' financial information and reassess the repayment ability of the borrowers to fulfil the expiry repayment obligation based on whether the borrowers' operating condition is healthy, whether the cash flow is sufficient, whether the key financial ratio is sufficient;

Independent Auditor's Report

Key Audit Matter

When the Bank conducts individual assessment, they will evaluate the amount of the future cash flow generated by the borrower, the value of the collateral, the realization time of the collateral, the discount rate and other factors.

When the Bank conducts collective assessment, the migration model is used for impairment allowances. The migration model will analyse the economic situation from the macro perspective based on the objective market factors and the Bank's assessments. The Bank calculates the impairment rate with the Bank's historical loan loss rate and impairment identification periods as well as adjustments for credit risk characteristic. The adjustments for credit risk characteristic used in the migration model requires Bank's judgment.

The reason we focus on this area is that the assessment of provision for impairment of loans and advances to customers involves complex accounting estimates and judgments.

How our audit addressed the Key Audit Matter

- Assess whether the relevant collateral value covers the corresponding principal and interest through reviewing appraisal reports if applicable;
- Assess whether the guarantor has the financial capacity to undertake the guarantee by checking the guarantor's latest financial statements and cash flow conditions.

Individual assessment: For the impairment provision in individual assessment, we assess the accuracy of data input and the assumptions of future discounted cash flow forecasts prepared by the Bank and perform calculation to evaluate the results on sampling basis.

Collective assessment: For the impairment provision on collective assessment, we assess whether the model used by Bank applies to the current economic environment to adequately reflect the credit risk of loans and advances. At the same time, we assess the data, assumptions and parameters used in the impairment model, including historical loan loss ratio and impairment identification periods, and adjustments for credit risk characteristic.

Based on the above audit work, we believe that the key models, information, assumptions and parameters used by the Bank for impairment provision are reasonable.

Independent Auditor's Report

Key Audit Matter

Consolidation assessment of structured entities

Refer to note 44 "Structured entities" to the consolidated financial statements.

The Bank manages and invests in a number of structured entities (primarily wealth management products, trust and asset management plans). The Bank assesses its control over these structured entities when determining whether to consolidate them.

As of December 31, 2016, the balance of unconsolidated wealth products managed by the Bank was RMB71.4 billion. The unconsolidated structured entities invested by the Bank was RMB232.8 billion.

Considering the significant balance of the structured entities and significant judgments the Bank makes to analyse whether the Bank has control on the structured entities, we focus on the reasonableness of the Bank's consolidation assessment according to its analysis of the Bank's power over the structured entities, its variable returns from the structured entities, and whether the Bank uses its power over the structured entities to affect the returns. The Bank needs to consolidate the structured entities if it acts as a principal.

How our audit addressed the Key Audit Matter

Our procedures in relation to management's assessment on the consolidation of structured entities include:

1. Analyze the transaction structures, inspect related contract terms, and evaluate whether the Bank has the power to direct the activities of these structured entities;
2. Read the contract terms related to the Bank's variable returns from those selected structured entities, including management fee, expected investment returns, and agree this information to the corresponding inputs used in management's assessment;
3. Recalculate the magnitude and variability of the variable returns to the Bank from these structured entities based on contract terms;
4. Assess the Bank's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Bank is entitled for its services provided to the structured entities, its exposure to variability of returns from other interests that it holds in them, and the rights held by other parties, and compare our assessment results with management's assessment outcomes.

Based on the audit evidence we have obtained, we believe that the Bank's consolidation assessment is supportable.

Independent Auditor's Report

OTHER INFORMATION

The directors of the Bank are responsible for the other information. The other information comprises all of 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 DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors 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.

Audit Committee are responsible 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. We report our opinion solely to you, as a body, for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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

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

From the matters communicated with 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 KWOK WAI, JIMMY.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	2016	2015
Interest income	6	32,701,942	28,941,258
Interest expense	6	(14,362,321)	(14,098,106)
Net interest income		18,339,621	14,843,152
Fee and commission income	7	2,631,188	1,871,997
Fee and commission expense	7	(140,052)	(100,717)
Net fee and commission income		2,491,136	1,771,280
Net trading gains	8	75,976	55,439
Net gains on financial investments		(67,011)	210,419
Dividend income		2,770	440
Other operating income, net	9	75,917	96,370
Operating income		20,918,409	16,977,100
Operating expenses	10	(5,763,036)	(5,435,251)
Impairment losses on assets	13	(6,486,913)	(3,656,836)
Share of profits in associates		144,065	87,976
Profit before income tax		8,812,525	7,972,989
Income tax expense	14	(1,816,253)	(1,760,915)
Profit for the year		6,996,272	6,212,074
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Fair value changes on available-for-sale financial assets	43	(521,844)	506,729
Less: related income tax impact	43	130,461	(126,682)
Other comprehensive income, net of tax		(391,383)	380,047
Comprehensive income for the year		6,604,889	6,592,121
Net profit attributable to:			
Shareholders of the Bank		6,870,472	6,160,661
Non-controlling interests		125,800	51,413
		6,996,272	6,212,074
Total comprehensive income attributable to:			
Shareholders of the Bank		6,479,089	6,540,708
Non-controlling interests		125,800	51,413
		6,604,889	6,592,121
Basic/Diluted earnings per share for profit attributable to shareholders of the Bank (express in RMB)	15	0.62	0.56

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	As at 31 December	
		2016	2015
Assets			
Cash and balances with central bank	16	88,059,360	78,414,034
Deposits with banks and other financial institutions	17	10,960,598	10,283,249
Placements with banks and other financial institutions	18	19,319,720	20,990,412
Financial assets at fair value through profit or loss	19	5,742,117	2,730,120
Derivative financial assets	20	385,977	3,789
Financial assets held under resale agreements	21	516,183	42,919,944
Loans and advances to customers	22	269,336,141	237,428,103
Financial Investments			
– Available-for-sale	23	120,384,390	96,271,648
– Held-to-maturity	23	52,351,451	42,257,244
– Debt instruments classified as loans and receivables	23	159,671,108	89,134,252
Investment in associates	24	538,646	413,581
Property, plant and equipment	25	1,719,242	1,617,382
Deferred tax assets	35	2,309,106	1,274,063
Finance lease receivables	26	18,199,109	7,502,268
Other assets	27	5,280,846	4,890,532
Total assets		754,773,994	636,130,621
Liabilities			
Borrowing from central banks		5,000	–
Deposits from banks and other financial institutions	29	83,216,302	89,286,186
Placements from banks and other financial institutions	30	15,352,085	7,911,163
Derivative financial liabilities	20	4,643	19,997
Financial assets sold under repurchase agreements	31	32,619,242	45,431,767
Customer deposits	32	462,014,409	359,224,554
Income tax payable	33	1,559,261	1,467,357
Debt securities issued	36	91,505,250	79,425,700
Other liabilities	34	15,314,484	11,018,636
Total liabilities		701,590,676	593,785,360
Equity			
Share capital	37	11,049,819	11,049,819
Other equity Instruments	37	5,990,090	–
Capital reserve	37	6,751,041	6,751,041
Surplus reserve	38	6,536,297	5,249,966
Statutory general reserve	38	6,208,315	4,716,293
Investment revaluation reserve	43	(120,747)	270,636
Retained earnings		15,456,586	13,121,389
Equity attributable to shareholders of the Bank		51,871,401	41,159,144
Non-controlling interests		1,311,917	1,186,117
Total equity		53,183,318	42,345,261
Total equity and liabilities		754,773,994	636,130,621

The accompanying notes form an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on March 23, 2017 and were signed on its behalf.

Li Hongming

Chairman

Wu Xuemin

President

Sheng Hongqing

Assistant President

Li Da Wei

Head of Finance Department

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

(All amounts expressed in thousands of RMB unless otherwise stated)

	Equity attributable to shareholders of the Bank								
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	Statutory general reserve	Investment revaluation reserve	Retained earnings	Non-controlling interests	Total equity
	Note 37	Note 37	Note 37	Note 38	Note 38	Note 43			
As at 1 January 2016	11,049,819	-	6,751,041	5,249,966	4,716,293	270,636	13,121,389	1,186,117	42,345,261
(1) Comprehensive income									
Net profit for the year	-	-	-	-	-	-	6,870,472	125,800	6,996,272
Other comprehensive income	-	-	-	-	-	(391,383)	-	-	(391,383)
Total comprehensive income for the year	-	-	-	-	-	(391,383)	6,870,472	125,800	6,604,889
(2) Changes in capital									
Other equity instruments issued	-	5,990,090	-	-	-	-	-	-	5,990,090
(3) Profit distribution									
Dividends	-	-	-	-	-	-	(1,756,922)	-	(1,756,922)
Appropriation to surplus reserve	-	-	-	1,286,331	-	-	(1,286,331)	-	-
Appropriation to statutory general reserve	-	-	-	-	1,492,022	-	(1,492,022)	-	-
As at 31 December 2016	11,049,819	5,990,090	6,751,041	6,536,297	6,208,315	(120,747)	15,456,586	1,311,917	53,183,318
As at 1 January 2015	11,049,819	-	6,751,041	4,071,254	3,743,460	(109,411)	10,868,057	178,704	36,552,924
(1) Comprehensive income									
Net profit for the year	-	-	-	-	-	-	6,160,661	51,413	6,212,074
Other comprehensive income	-	-	-	-	-	380,047	-	-	380,047
Total comprehensive income for the year	-	-	-	-	-	380,047	6,160,661	51,413	6,592,121
(2) Changes in capital									
Non-controlling interests	-	-	-	-	-	-	-	980,000	980,000
(3) Profit distribution									
Dividends	-	-	-	-	-	-	(1,755,784)	(24,000)	(1,779,784)
Appropriation to surplus reserve	-	-	-	1,178,712	-	-	(1,178,712)	-	-
Appropriation to statutory general reserve	-	-	-	-	972,833	-	(972,833)	-	-
As at 31 December 2015	11,049,819	-	6,751,041	5,249,966	4,716,293	270,636	13,121,389	1,186,117	42,345,261

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

(All amounts expressed in thousands of RMB unless otherwise stated)

	Year ended 31 December	
	2016	2015
Cash flows from operating activities:		
Profit before income tax	8,812,525	7,972,989
Adjustments:		
Depreciation and amortization	372,863	320,504
Impairment losses on loans	4,767,504	2,686,042
Impairment losses on financial investments	1,410,097	875,521
Impairment losses on finance lease receivables	221,376	95,273
Impairment losses on other receivables	87,936	–
Recovery of written-off loans	157,829	66,433
Net (gains)/losses on disposals of property, plant and equipment	(9,447)	945
Net losses/(gains) on de-recognition of financial investments	67,011	(210,419)
Fair value changes in financial assets at fair value through profit or loss and derivatives	(316,419)	(17,765)
Dividends received	(2,770)	(440)
Share of profits in associates	(144,065)	(87,976)
Interest income from financial investments	(15,478,039)	(8,493,007)
Interest expense from debt securities issued	3,298,607	2,122,001
Net changes in operating assets:		
Net (increase)/decrease in deposit balances with central bank	(18,258,447)	3,433,726
Net increase in deposits and placements with banks and other financial institutions	(3,836,835)	(7,146,219)
Net increase in financial assets at fair value through profit or loss	(3,093,120)	(267,289)
Net decrease in financial assets held under resale agreements	42,403,761	10,280,675
Net increase in loans and advances to customers	(36,585,982)	(25,549,287)
Net increase in finance lease receivables	(6,866,540)	(7,654,901)
Net decrease/(increase) in other assets	9,132,511	(259,028)
Net changes in operating liabilities:		
Net increase in deposits and placements from banks and other financial institutions	1,371,038	73,878,059
Net (decrease)/increase in financial assets sold under repurchase agreements	(12,812,525)	(27,049,450)
Net increase in customer deposits	102,289,854	41,364,511
Net (decrease)/increase in other liabilities	(8,974,013)	691,138
Income taxes paid	(2,256,968)	(1,670,626)
Net cash from operating activities	65,757,742	65,381,410

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended 31 December	
		2016	2015
Cash flows from investing activities:			
Dividends received		2,770	440
Proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets		14,686	150
Purchase of property, plant and equipment and other long-term assets		(559,504)	(526,317)
Interest received from financial investments		15,039,595	7,417,478
Proceeds from sale and redemption of financial investments		129,190,356	43,607,742
Purchase of financial investments		(235,890,313)	(162,018,356)
Net cash used in investing activities		(92,202,410)	(111,518,863)
Cash flows from financing activities:			
Proceeds from issuance of debt securities		59,123,784	101,165,798
Proceeds from issuance of preferred shares		5,990,090	–
Cash received from non-controlling interests in investing in subsidiaries		–	980,000
Dividends paid on ordinary shares and interests paid on debt securities issued		(4,161,275)	(2,245,225)
Cash paid for repayment of debt securities		(48,260,000)	(44,703,000)
Net cash from financing activities		12,692,599	55,197,573
Effect of exchange rate changes on cash and cash equivalents		221,985	116,513
Net changes in cash and cash equivalents		(13,530,084)	9,176,633
Cash and cash equivalents at beginning of the year		42,304,555	33,127,922
Cash and cash equivalents at end of the year	45	28,774,471	42,304,555

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

1 GENERAL INFORMATION

Huishang Bank Corporation Limited (the “Bank”) is a joint stock commercial bank registered in Anhui Province, the People’s Republic of China (the “PRC”). The Bank was formerly known as Hefei City Cooperatives Bank, which was established on 4 April 1997 with the approval of the People’s Bank of China (“PBOC”), Anhui Branch and Anhui Economic Reform Committee and was renamed as Hefei Commercial Bank Co., Ltd. on 28 July 1998. The Bank was further renamed as Huishang Bank Corporation Limited on 30 November 2005 with approval of the general office of China Banking Regulatory Commission (“CBRC”) and CBRC Anhui Branch. Approved by CBRC Anhui Branch, the Bank acquired five former city commercial banks in Wuhu, Ma’ anshan, Anqing, Huaibei and Bengbu and seven city credit cooperatives in Lu’an, Huainan, Tongling and Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda on 28 December 2005. The Bank holds the financial institution license B0162H234010001 from CBRC Anhui Branch and the legal entity business license No. 3400000000261441-1 from Anhui Provincial Administration of Industry and Commerce. The registered address of the Bank is Block A, Tianhui Building, No. 79, Anqing Road, Hefei, China. In November 2013, the Bank’s H-shares were listed on the Hong Kong Stock Exchange (Stock Code: 3698). As at 31 December 2016, the registered and paid-in capital of the Bank is RMB11 billion.

The Bank and its subsidiaries (together the “Group”) provide corporate banking, retail banking, and treasury operations which mainly encompass money market activities, investment and trading activities and transactions for customers in the PRC.

These consolidated financial statements were authorized for issue by the Board of Directors on 23 March 2017.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.2.

The Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.1 New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations that have been issued but not yet effective and not been early adopted by the Group as of December 31, 2016. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. The principle and guidance on recognition and derecognition of financial instruments in IAS 39 remains unchanged.

IFRS 9 will change the way the Group classifies and measures its financial assets. IAS 39 measurement categories "financial assets at fair value through profit or loss", "held-to-maturity investments", "debt instruments classified as loans and receivables" and "available-for-sale financial assets" will be replaced by three main categories in IFRS 9, which are "amortized cost", "fair value through other comprehensive income" and "fair value through profit or loss". The approach for classifying financial assets will also change. Under IAS 39 the characteristics of financial assets are analyzed for any embedded derivatives and whether those have to be separated from the host contract (bifurcation of hybrid instruments). IFRS 9 uses a different approach that does not involve the bifurcation of financial assets. Instead, financial assets are classified in their entirety into a measurement category. This classification of financial assets under IFRS 9 will require the Group to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurement.

For financial assets that will be classified as "amortised cost" or "fair value through other comprehensive income", the Group will be required to apply an expected credit loss impairment model that will apply to both those measurement categories as well as other exposures to credit risk such as loan commitments and financial guarantees. This impairment model will replace the different impairment models in IAS 39 (the incurred loss impairment model and the impairment model for available-for-sale financial assets) as well as the requirements in IAS 37 that related to some types of credit risk exposures (such as loan commitments and financial guarantees). The main differences between the new expected credit loss impairment model compared to the incurred loss model in IAS 39 are that the expected credit loss model uses more forward-looking information and that it does not involve the existence of an objective evidence of impairment until which credit losses remain unrecognized. Consequently, financial assets in the scope of the new impairment model will require a loss allowance to be recognized throughout their lives and the relative change of credit risk since initial recognition of the financial asset drives whether that loss allowance is equal to 12-month expected credit losses or lifetime expected credit losses. Lifetime expected credit losses represent all credit losses over the remaining life of a financial asset on a probability-weighted basis. 12-month expected credit losses are a subset of the lifetime expected credit losses and represent the losses expected to arise from default events within the next 12 months after the reporting date.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.1 New standards and interpretations not yet adopted (Continued)

Given IFRS 9 will change the way the Group classifies and measures its financial assets, adoption of IFRS 9 on 1 January 2018 could have material impact on the Group's financial information. The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 9, including assessing the need for any system modification related to expected credit loss model, updating financial instruments impairment policies and launching relevant staff training. The Group has not completed its assessment of the full impact of adopting IFRS 9 and therefore its possible impacts on the Group's operating results and financial position have not been quantified.

IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is currently assessing the impact of IFRS 15.

IFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 "Leases", and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the entity adopting IFRS 15 "Revenue from contracts with customers" at the same time. The Group is currently assessing the impact of IFRS 16.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

3.1 Summary of significant accounting policies

3.1.1 Accounting year

The Group's accounting year starts on 1 January and ends on 31 December.

3.1.2 Functional and presentation currency

The Group's functional and presentation currency is RMB.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.3 Subsidiaries

(a) *Consolidation*

The consolidated financial statements comprise the financial statements of the Bank and all of its subsidiaries.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Group.

Intra-Group transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Group are recognized as non-controlling interests and presented separately in the consolidated financial statements within equity and net profits respectively.

(b) *Separate financial report*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Bank based on dividend received and receivables.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiaries in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.4 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit of investments accounted for using equity method' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the income statement.

3.1.5 Foreign currency translation

Monetary items denominated in foreign currency are translated into RMB with the closing rate as at the reporting date and translation differences are recognized in the income statement. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, such as cash, surplus reserve with the central bank, deposits or placements with banks and other financial institutions with original tenors less than 3 months.

3.1.7 Financial instruments

(1) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, debt instruments classified as loans and receivables, available for sale and held to maturity. The classification of financial assets depends on the Group's intention to hold the financial assets. Management determines the classification of its financial assets at initial recognition.

The Group classified its financial liability in the following categories: at fair value through profit and loss and other financial liabilities. The Group does not hold any financial liabilities at fair value through profit or loss.

The classification of financial instruments depend on the Group's intention and ability to hold the financial instruments. Management determines the classification of its financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges.

There are no financial assets designated at fair value through profit or loss at inception for the Group.

(b) Debt instruments classified as loans and receivables

Debt instruments classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.7 Financial instruments (Continued)

(1) Classification (Continued)

(d) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

(e) Other financial liabilities

Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss. Other financial liabilities are initially recognized at fair value less transaction costs, and are subsequently measured at amortized cost using the effective interest method.

(2) Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Debt instruments classified as loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "net trading gains/(losses)" in the period in which they arise. The dividend income of financial assets at fair value through profit and loss will be identified as Dividend Income when the group gain the rights to receive the fund.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as "net gains/(losses) from financial investments".

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Group's right to receive payments is established.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.7 Financial instruments (Continued)

(3) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(4) *Impairment of financial assets*

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For debt instruments classified as loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.7 Financial instruments (Continued)

(4) Impairment of financial assets (Continued)

(b) Financial assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

(5) Derecognition of financial instruments

The Group derecognizes a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

The difference between the carrying amount of the financial asset derecognised and the consideration received and the cumulative changes in fair value previously recognised in equity are recognised in profit or loss.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.7 Financial instruments (Continued)

(5) Derecognition of financial instruments (Continued)

Financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(6) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on the prices within the bid-ask spread that is most representative of fair value in the circumstances, and without any deduction for transaction costs that may occur on sales or disposals. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring orderly transactions.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include the price used by market participants in an orderly transaction, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity.

3.1.8 Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.9 Asset securitizations

The Group securitises certain loans, which generally involves the sale of these assets to structured entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's statement of financial position. Gains or losses on securitisation are the difference between the carrying amount of the transferred financial assets and the consideration received (including retained interest) which is recognised in profit or loss.

3.1.10 Resale and repurchase agreements

Assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognized on the statement of financial position at time of acquisition. The corresponding cash paid is recognized on the balance sheet as "financial assets held under resale agreements". Conversely, assets sold under agreements to repurchase at a specified future date with a specific price ("repos") are not derecognized. The corresponding cash received is recognized on the balance sheet as "financial assets sold for repurchase agreements".

The differences between the purchase and resale prices and sale and repurchase prices are recognized as interest income and interest expense respectively and are accrued over the term of the agreement using the effective interest rate method.

3.1.11 Property, plant and equipment

Property, plant and equipment are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to property, plant and equipment when ready for its intended use.

(a) Cost

Property, plant and equipment are initially recognised at cost. The cost of a purchased property, plant and equipment comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed property, plant and equipment comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent costs, including the cost of replacing part of an item of property, plant 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. Expenditures relating to ordinary maintenance of property, plant and equipment are recognised in profit or loss.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.11 Property, plant and equipment (Continued)

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired property, plant and equipment are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual values and annual depreciation rates of respective property, plant and equipment are as follows:

	Estimated useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	20 years	3%	4.85%
Motor vehicles	5 years	3%	19.40%
Electronic and other equipment	5-10 years	3%	9.70%~19.40%

The Group reviews the estimated useful lives and estimated residual values of property, plant and equipment and the depreciation method applied at least once a financial year.

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 3.1.14.

(c) Disposal

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

3.1.12 Land use rights

Land use rights are initially recognized at costs and amortized using the straight-line basis over the legal term of use through profit and loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 3.1.14.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.13 Intangible assets

Software and other intangible assets are initially recognized at cost. The cost less estimated residual values, if any, of the intangible assets is amortized on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortized net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 3.1.14.

3.1.14 Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset. If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

3.1.15 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees. Employee benefits are recognized as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in the expenses in profit or loss.

(a) Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the 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 local government organizations. The contributions are charged to the 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.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.15 Employee benefits (Continued)

(a) *Defined contribution retirement schemes (Continued)*

In addition to the statutory provision schemes, the Bank's employees have joined the annuity scheme setup by the Bank under "Annuity Scheme" (the "scheme") in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

(b) *Housing fund and other social insurance*

In accordance with the related laws, regulations and policies of the PRC, the Group participates in mandatory social insurance programmes, including housing fund, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance etc. The Group makes housing fund and social insurance contributions to government agencies in proportion to each employee's salary and expenses monthly and recognises them in profit or loss on an accrual basis. The Group has participated in commercial medical insurance schemes provided by commercial insurance companies since October 2012. The Group recognizes them directly in profit or loss when incurred.

(c) *Early retirement expenses*

The Group recognises the present value of all its liabilities to employees who voluntarily agreed to retire early. The early retirement benefit payments are made by the Group from the date of early retirement to the regulated retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

3.1.16 Revenue Recognition

(a) *Interest income*

Interest income for interest bearing financial instruments is recognised in profit or loss based on the effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant 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 instrument. 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 that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.16 Revenue Recognition (Continued)

(a) Interest income (Continued)

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

(b) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as commission on expiry.

(c) Dividend income

Dividend income from unlisted equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established.

3.1.17 Current and deferred tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items 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. At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.18 Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated 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 the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

3.1.19 Financial guarantee contracts

Financial guarantees are contracts that require the Group as the guarantor (the “issuer”) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs when 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 statement of financial position 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.

3.1.20 Fiduciary activities

The Group’s fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and related parties. The Group conducts entrusted lending business, hereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the “entrusted funds”) to the Group, and the Group grants loans to third parties (the “entrusted loans”) according to the instructions of the customers. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.21 Lease

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

(a) *As a lessee under operating leases*

Lease payments under an operating lease are recognized in profit or loss by a lessee on a straight-line basis over the lease term. Initial direct cost is also charged to profit or loss. Contingent rents are recorded into profit or loss of the period in which they actually arise.

(b) *As a lessor under finance leases*

At the lease commencement date, the present value of the aggregation of the minimum lease payment receivables from the lessee, unguaranteed residual value and initial direct costs is recognized as receivables. The difference between the receivables and the present value of the receivables is recognized as unearned finance income. Lease income is recognized over the term of the lease using an interest rate which reflects a constant rate of return, as interest income in the comprehensive income statement. Contingent rents are recorded into profit or loss of the period in which they actually arise. The differences between the finance lease receivables less the unearned finance income are presented in "Finance lease receivables". When making the judgment of de-recognition or impairment measurement, finance lease receivables are considered as debt instruments classified as loans and receivables.

(c) *As a lessor under operating lease*

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Operating lease payments are recognized as an expense and charged to Other Operating Income in the consolidated income statement on a straightline basis over the lease term. Contingent rentals arising under operating leases are recognized as expenses in the periods in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are considered in determining the amount to be recognized over the lease term.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.22 Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments etc., which the management has chosen for organization. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately. The amount reported for each operating segment item is the measure reported to the chief operating decision makers for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

3.2 Critical accounting estimates and judgments

The Group continually evaluates the significant accounting estimates and judgments applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below. It is possible that actual results may be materially different from the estimates and judgments referred to below.

3.2.1 Impairment allowances on loans and advances

The Group reviews its loan portfolios to assess impairment on a periodic basis, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change (e.g. the borrower failed to make repayments on time) in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3.2.2 Impairment of other financial assets

For held-to-maturity investments and debt instruments classified as receivables, the determination of whether such an investment is impaired requires significant judgment. Objective evidence that a financial asset or group of financial assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer, etc. In making such judgment, the impact of objective evidence of impairment on expected future cash flows of the investment is taken into account.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.2 Critical accounting estimates and judgments (Continued)

3.2.2 Impairment of other financial assets (Continued)

For available-for-sale investments, the determination of whether such an investment is impaired requires significant judgment. In making this judgment, the Group considers the duration and extent to which the fair value of an investment is less than its cost; or whether other objective evidence of impairment exists based on the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

3.2.3 Scope of consolidation

The Group has taken into consideration all facts and circumstances in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. The recent evidence indicated that the Bank has a dominant position over operating activities of Wuwei Huiyin Rural Bank Co., Ltd. and in effect controls it. So the Group consolidated Wuwei Huiyin Rural Bank Co., Ltd.

4 TAXATION

The principal taxes to which the Group is subject are listed below:

	Tax basis	Tax rate
Corporate income tax	Taxable profit	25%
Value added tax	Credit mechanism: VAT Payable = Output VAT at sales – Input VAT incurred at purchase	3%, 5%, 6%, 11%, 17%
Business tax	Taxable operating income	5%
City construction and maintenance tax	Business tax	5%, 7%
Education surcharge	Business tax	3%

Pursuant to the relevant provisions set forth in the Notice Regarding Fully Promoting Value-added Tax Instead Of Business Tax (Cai Shui [2016] No.36) issued by the Ministry of Finance on 23 March, 2016, the business tax has been replaced by value-added tax ("VAT") on a nationwide scale since 1 May, 2016. According to the notice, financial services taxpayers start to pay VAT instead of business tax with a main rate of 6%.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

5 THE BANK'S STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGE EQUITY

	As at 31 December	
	2016	2015
Assets		
Cash and balances with central bank	87,647,789	78,096,599
Deposits with banks and other financial institutions	9,169,601	9,183,551
Placements with banks and other financial institutions	19,319,720	21,130,813
Financial assets at fair value through profit or loss	5,742,117	2,730,120
Derivative financial assets	385,977	3,789
Financial assets held under resale agreements	516,183	42,919,944
Loans and advances to customers	265,341,594	231,870,685
Financial investments		
– Available-for-sale	122,077,403	100,104,140
– Held-to-maturity	52,351,451	42,257,244
– Debt instruments classified as loans and receivables	159,671,108	89,134,252
Investment in subsidiaries	1,122,313	1,122,313
Investment in associates	538,646	413,581
Property, plant and equipment	1,706,057	1,605,950
Deferred tax assets	2,274,500	1,268,450
Other assets	5,101,649	4,806,152
Total assets	732,966,108	626,647,583
Liabilities		
Deposits from banks and other financial institutions	83,386,949	89,604,290
Placements from banks and other financial institutions	1,422,085	3,071,163
Derivative financial liabilities	4,643	19,997
Financial assets sold under repurchase agreements	32,619,242	45,431,767
Customer deposits	457,642,058	356,396,086
Taxes payable	1,494,750	1,437,278
Debt securities issued	91,505,250	79,425,700
Other liabilities	13,189,789	10,148,166
Total liabilities	681,264,766	585,534,447
Equity		
Share capital	11,049,819	11,049,819
Other equity instruments	5,990,090	–
Capital reserve	6,751,041	6,751,041
Surplus reserve	6,536,297	5,249,966
Statutory general reserve	6,208,315	4,716,293
Investment revaluation reserve	(120,747)	270,636
Retained earnings	15,286,527	13,075,381
Total equity	51,701,342	41,113,136
Total equity and liabilities	732,966,108	626,647,583

Li Hongming

Chairman

Wu Xuemin

President

Sheng Hongqing

Assistant President

Li Dawei

Head of Finance Department

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

5 THE BANK'S STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGE EQUITY (Continued)

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	Statutory general reserve	Investment revaluation reserve	Retained earnings	Total equity
As at 1 January 2016	11,049,819	-	6,751,041	5,249,966	4,716,293	270,636	13,075,381	41,113,136
Issurance of preference shares	-	5,990,090	-	-	-	-	-	5,990,090
(1) Comprehensive income								
Net profit for the year	-	-	-	-	-	-	6,746,421	6,746,421
Other comprehensive income, net of tax	-	-	-	-	-	(391,383)	-	(391,383)
Total comprehensive income for the year	-	-	-	-	-	(391,383)	6,746,421	6,355,038
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(1,756,922)	(1,756,922)
Appropriation to surplus reserve	-	-	-	1,286,331	-	-	(1,286,331)	-
Appropriation to statutory general reserve	-	-	-	-	1,492,022	-	(1,492,022)	-
As at 31 December 2016	11,049,819	5,990,090	6,751,041	6,536,297	6,208,315	(120,747)	15,286,527	51,701,342
As at 1 January 2015	11,049,819	-	6,751,041	4,071,254	3,743,460	(109,411)	10,865,811	36,371,974
(1) Comprehensive income								
Net Profit for the year	-	-	-	-	-	-	6,116,899	6,116,899
Other comprehensive income, net of tax	-	-	-	-	-	380,047	-	380,047
Total comprehensive income for the year	-	-	-	-	-	380,047	6,116,899	6,496,946
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(1,755,784)	(1,755,784)
Appropriation to surplus reserve	-	-	-	1,178,712	-	-	(1,178,712)	-
Appropriation to statutory general reserve	-	-	-	-	972,833	-	(972,833)	-
As at 31 December 2015	11,049,819	-	6,751,041	5,249,966	4,716,293	270,636	13,075,381	41,113,136

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

6 NET INTEREST INCOME

	2016	2015
Interest income		
Balances with central bank	1,078,255	921,808
Deposits and placements with banks and other financial institutions	1,670,057	3,688,769
Loans and advances to customers	13,704,237	15,667,139
Financial investments	15,478,039	8,493,007
Finance lease receivables	771,354	170,535
	32,701,942	28,941,258
Including: Interest income from impaired loans to customers	89,404	65,251
Interest expense		
Borrowing from central banks	–	(2,474)
Deposits and placements from banks and other financial institutions	(4,375,250)	(5,507,430)
Customer deposits	(6,688,464)	(6,466,201)
Debt securities issued	(3,298,607)	(2,122,001)
	(14,362,321)	(14,098,106)
Net interest income	18,339,621	14,843,152

7 NET FEE AND COMMISSION INCOME

	2016	2015
Fee and commission income		
Custodian and other fiduciary service	1,409,985	1,018,389
Bank card service	513,960	293,113
Consultancy and advisory service	178,670	162,422
Settlement and clearing service	109,206	96,053
Guarantee and commitment service	18,867	49,024
Agency service	173,599	46,650
Arrangement fees for international trade financing	7,136	32,809
Domestic factoring service	9,439	10,658
Syndicated loan service	10,583	23,438
Others	199,743	139,441
	2,631,188	1,871,997
Fee and commission expense	(140,052)	(100,717)
Net fee and commission income	2,491,136	1,771,280

Notes to the Consolidated Financial Statements

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8 NET TRADING GAINS

	2016	2015
Net gains from foreign exchange	157,099	21,979
Net (losses)/gains from financial investments	(81,123)	33,460
	75,976	55,439

Net gains from financial investments mainly include gains arising from fair value changes of financial assets at fair value through profit or loss.

9 OTHER OPERATING INCOME, NET

	2016	2015
Net gains on bills	1,797	23,019
Others	74,120	73,351
	75,917	96,370

10 OPERATING EXPENSES

	2016	2015
Staff cost (Note 11)	(2,804,179)	(2,209,212)
General and administrative expenses	(1,454,222)	(1,241,323)
Tax and surcharges	(649,746)	(1,356,530)
Depreciation (Note 25)	(252,830)	(214,415)
Amortization of intangible assets (Note 27(d))	(23,746)	(32,895)
Amortization of land use rights (Note 27(c))	(11,500)	(4,226)
Amortization of long-term prepaid expenses	(84,787)	(68,968)
Operating lease and rental expenses	(281,520)	(223,073)
Auditors' remuneration	(8,245)	(5,988)
– Audit Services	(7,550)	(5,900)
– Non-audit services	(695)	(88)
Others	(192,261)	(78,621)
	(5,763,036)	(5,435,251)

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

11 STAFF COST

	2016	2015
Salaries and bonuses	(2,072,651)	(1,593,476)
Pension costs	(276,866)	(212,895)
Labor union fee and staff education expenses	(75,525)	(54,568)
Other social insurance and benefit costs	(379,137)	(348,273)
	(2,804,179)	(2,209,212)

(a) Five highest paid individuals

For the year ended 31 December 2016, the five highest paid individuals include one director (2015: 2 directors). Details are listed in note (12(a)). The emoluments for the rest of the four (2015: 3) highest paid individual are as follows:

	2016	2015
Salaries, allowances and benefits	4,113	2,829
Contribution to pension schemes	226	127
Discretionary bonuses	2,742	1,721
	7,081	4,677

The number of these individuals, other than directors, whose emoluments fell within the following bands.

	2016	2015
RMB1,000,001–RMB1,500,000	1	3
RMB1,500,001–RMB2,000,000	1	–
RMB2,000,001–RMB2,500,000	2	–
	4	3

No emolument was paid by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS

(a) Details of the Directors' and Supervisors' emoluments are as follows:

Name	2016				Total
	Fees	Salaries, allowance and benefits in kind	Contribution to pension schemes	Discretionary bonuses	
Executive Directors					
Li Hongming ^(a)	–	618	67	–	685
Wu Xuemin ^(a)	–	561	64	–	625
Xu Demei ^(a)	–	478	60	–	538
Ci Yaping ^(a)	–	477	61	–	538
Non-executive Directors					
Zhang Feifei	–	–	–	–	–
Gao Yang	–	–	–	–	–
Zhu Jiusheng ⁽¹⁾	–	–	–	–	–
Zhao Zongren ⁽²⁾	–	–	–	–	–
Qian Li ⁽³⁾	–	–	–	–	–
Lu Hui ⁽⁴⁾	–	–	–	–	–
Qiao Chuanfu ⁽⁵⁾	–	–	–	–	–
Au Ngai, Daniel	76	–	–	–	76
Dai Genyou	101	–	–	–	101
Wang Shihao ⁽⁶⁾	103	–	–	–	103
Zhang Shenghuai	76	–	–	–	76
Fung Weichang ⁽⁷⁾	63	–	–	–	63
Zhu Hongjun ⁽⁸⁾	103	–	–	–	103
Supervisors					
Zhang Renfu ^{(9) (a)}	–	477	61	–	538
Zhang Zhen ^{(10) (a)}	–	71	216	–	287
Xu Chongding ^(a)	–	730	57	426	1,213
Zhou Tong ^{(11) (a)}	–	783	47	255	1,085
Cheng Rulin	–	–	–	–	–
Cheng Hong ⁽¹²⁾	–	–	–	–	–
Qian Xiaojun ⁽¹³⁾	–	–	–	–	–
Cheng Junpei	90	–	–	–	90
Fan Libo ⁽¹⁴⁾	–	–	–	–	–
Pan ShuJuan	90	–	–	–	90
Total	702	4,195	633	681	6,211

(a) The total compensation packages for executive directors and supervisors for the year ended 31 December 2016 including discretionary bonus have not yet been finalised in accordance with relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's 2016 financial statements. The compensation amounts has been fully disclosed for these directors and supervisors as at 31 December 2015.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (Continued)

(a) Details of the Directors' and Supervisors' emoluments are as follows (Continued):

Name	Fees	2015			Total
		Salaries, allowance and benefits in kind	Contribution to pension schemes	Discretionary bonuses	
Executive Directors					
Li Hongming ^(a)	–	1,053	57	701	1,811
Wu Xuemin ^(a)	–	952	55	631	1,638
Zhang Renfu ^{(9) (a)}	–	804	52	526	1,382
Xu Demei ^(a)	–	805	52	526	1,383
Ci Yaping ^(a)	–	804	52	526	1,382
Non-executive Directors					
Zhang Feifei	–	–	–	–	–
Qian Zheng ⁽¹⁵⁾	–	–	–	–	–
Guo Shigang ⁽¹⁶⁾	–	–	–	–	–
Wu Tian ⁽¹⁷⁾	–	–	–	–	–
Gao Yang	–	–	–	–	–
Zhu Jiusheng ⁽¹⁾	–	–	–	–	–
Zhao Zongren ⁽²⁾	–	–	–	–	–
Qian Li ⁽³⁾	–	–	–	–	–
Lu Hui ⁽⁴⁾	–	–	–	–	–
Qiao Chuanfu ⁽⁵⁾	–	–	–	–	–
Au Ngai, Daniel	150	–	–	–	150
Dai Genyou	137	–	–	–	137
Wang Shihao ⁽⁶⁾	88	–	–	–	88
Zhang Shenghuai	100	–	–	–	100
Fung Weichang ⁽⁷⁾	88	–	–	–	88
Zhu Hongjun ⁽⁸⁾	125	–	–	–	125
Supervisors					
Zhang Zhen ^{(10) (a)}	–	805	52	526	1,383
Xu Chongding ^(a)	–	737	48	426	1,211
Zhou Tong ^{(11) (a)}	–	764	40	250	1,054
Cheng Rulin	–	–	–	–	–
Cheng Hong ⁽¹²⁾	–	–	–	–	–
Qian Xiaojun ⁽¹³⁾	–	–	–	–	–
Cheng Junpei	80	–	–	–	80
Fan Libo ⁽¹⁴⁾	20	–	–	–	20
Pan ShuJuan	90	–	–	–	90
Total	878	6,724	408	4,112	12,122

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (Continued)

(a) Details of the Directors' and Supervisors' emoluments are as follows (Continued):

- (1) Zhu Jiusheng was elected to be non-executive director effective from October 2014.
- (2) Zhao Zongren was elected to be non-executive director effective from October 2014.
- (3) Qian Li was elected to be non-executive director effective from July 2015.
- (4) Lu Hui was elected to be non-executive director effective from July 2015.
- (5) Qiao Chuanfu was elected to be non-executive director effective from July 2015.
- (6) Wang Shihao resigned to be independent non-executive director from December 2015. The resignation will go into effect immediately when the Group appoint the new independent non-executive directors.
- (7) Fung Weichang resigned to be independent non-executive director from May 2016. The resignation goes into effect by 20 March 2017.
- (8) Zhu Hongjun resigned to be independent non-executive director from April 2016. The resignation will go into effect immediately when the Group appoint the new independent non-executive directors.
- (9) Zhang Renfu ceased to be executive director from January 2016 and was elected to be the chairman of the Board of Supervisors and employee representative supervisor effective from January 2016.
- (10) Zhang Zhen ceased to be the chairman of the Board of Supervisors and employee supervisor from January 2016.
- (11) Zhou Tong was elected to be supervisor effective from August 2014.
- (12) Cheng Hong ceased to be shareholder supervisor from November 2016.
- (13) Qian Xiaojun was elected to be supervisor effective from June 2014.
- (14) Fan Libo resigned to be supervisor from November 2015. The resignation will be effect immediately when the Group appoints the new supervisor.
- (15) Qian Zheng ceased to be non-executive director effective from January 2015.
- (16) Guo Shigang ceased to be non-executive director effective from January 2015.
- (17) Wu Tian ceased to be non-executive director effective from January 2015.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (Continued)

(b) Retirement benefits of directors and supervisors

For the year ended 31 December 2016 and 2015, no retirement benefits were paid to the directors or supervisors by a defined benefit pension plan operated by the Group.

(c) Termination benefits of directors and supervisors

For the year ended 31 December 2016 and 2015, no termination benefits were paid to the directors or supervisors by the Group.

(d) Consideration provided to third parties for making available services of directors and supervisors.

For the year ended 31 December 2016 and 2015, no consideration were provided to third parties for making available services of directors and supervisors by the Group.

(e) Material interests in the transaction, arrangement or contract of directors and supervisors

No significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director or a supervisor of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year of 2016 and 2015.

13 IMPAIRMENT LOSSES ON ASSETS

	2016	2015
Loans and advances to customers (Note 22(b))		
– Collectively assessed	(2,611,211)	(1,769,360)
– Individually assessed	(2,156,293)	(916,682)
Available-for-sale financial assets	(430,252)	(243,595)
Debt instruments classified as loans and receivables	(979,845)	(631,926)
Finance lease receivables	(221,376)	(95,273)
Other receivables	(87,936)	–
	(6,486,913)	(3,656,836)

14 INCOME TAX EXPENSE

	2016	2015
Current income tax		
– PRC mainland income tax	(2,720,835)	(2,205,873)
Deferred income tax (Note 35)	904,582	444,958
	(1,816,253)	(1,760,915)

The provision for China mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

14 INCOME TAX EXPENSE (Continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	2016	2015
Profit before tax	8,812,525	7,972,989
Tax calculated at applicable statutory tax rate of 25%	(2,203,131)	(1,993,247)
Tax effect arising from income not subject to tax ^(a)	462,583	289,287
Tax effect of expenses that are not deductible for tax purposes ^(b)	(63,605)	(43,757)
Tax filing differences from last years	(12,100)	(13,198)
Income tax expense	(1,816,253)	(1,760,915)

(a) Non-taxable income mainly represents interest income arising from PRC treasury bonds.

(b) The items that are not deductible for tax purposes mainly represent marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

15 EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share are calculated by dividing the profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2016	2015
Net profit attributable to shareholders of the Bank (in RMB thousands)	6,870,472	6,160,661
Weighted average number of ordinary shares in issue (in thousands)	11,049,819	11,049,819
Basic earnings per share (in RMB Yuan)	0.62	0.56

(b) Diluted earnings per share

For the year ended 31 December 2016 and 2015, there were no potential dilutive ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

The Bank issued non-cumulative preference shares during the year ended 31 December 2016 under the terms and conditions stated in Note 37(3) Other equity instruments.

For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period should be deducted from the amounts attributable to equity shareholders of the Bank. The Bank has not declared any dividend on preference shares for the year ended 31 December 2016.

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur as at 31 December 2016 and the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

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(All amounts expressed in thousands of RMB unless otherwise stated)

16 CASH AND BALANCES WITH THE CENTRAL BANK

	As at 31 December	
	2016	2015
Cash	1,352,992	1,179,229
Statutory reserves	71,999,077	53,740,630
Surplus reserves	14,707,291	23,494,175
	88,059,360	78,414,034

- (a) The Group places mandatory reserve deposits with the People's Bank of China ("PBOC"). The mandatory reserve deposits are not available for use in the Group's daily business.

As at the end of the reporting period, the mandatory reserve deposits rates of the bank were as follows:

	As at 31 December	
	2016	2015
Mandatory reserve rate for deposits denominated in RMB	14.5%	14.0%
Mandatory reserve rate for deposits denominated in foreign currency	5.0%	5.0%

- (b) Surplus reserve deposits maintained with the PBOC are mainly for settlement purpose.

17 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2016	2015
Banks in PRC mainland and other financial institutions	4,483,089	10,005,851
Others	6,477,512	277,401
	10,960,601	10,283,252
Less: allowances for impairment losses		
– Individually assessed	(3)	(3)
	10,960,598	10,283,249

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

18 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2016	2015
Banks in PRC mainland ^(a)	16,829,261	17,776,009
Other financial institutions in PRC mainland	2,490,459	3,214,403
	19,319,720	20,990,412

(a) Placements with banks and other financial institutions in PRC mainland are mainly re-discounted bills. The amount of re-discounted bills is RMB14,873,027 thousands as at 31 December 2016 and RMB16,496,769 thousands as at 31 December 2015 respectively.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2016	2015
Government bonds		
– Listed outside Hong Kong	150,736	207,309
Other debt securities		
– Listed outside Hong Kong	3,098,940	2,522,811
Certificates of deposit		
– Listed outside Hong Kong	2,492,441	–
	5,742,117	2,730,120

As at 31 December 2016 and 2015, there was no significant limitation on the ability of the Group to dispose financial assets at fair value through profit or loss.

Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

Financial assets at fair value through profit or loss analyzed by categories of issuer were as follows:

	As at 31 December	
	2016	2015
Debt securities		
Issuers in PRC mainland		
– Government	150,736	207,309
– Financial institutions	1,185,578	2,167,558
– Corporates	1,913,362	355,253
Certificates of deposit		
Issuers in PRC mainland		
– Financial institutions	2,492,441	–
	5,742,117	2,730,120

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

20 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2016		
	Nominal Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	180,328	1,583	(1,061)
– Currency swaps	7,887,477	352,891	–
– Interest rate swaps	3,550,000	31,503	(3,582)
	11,617,805	385,977	(4,643)

	As at 31 December 2015		
	Nominal Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	684,392	3,782	(2,872)
– Currency swaps	724,239	7	(1,770)
– Interest rate swaps	1,930,000	–	(15,355)
	3,338,631	3,789	(19,997)

21 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 31 December	
	2016	2015
Bills held under resale	516,183	40,637,996
Securities held under resale	–	2,281,948
	516,183	42,919,944

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(All amounts expressed in thousands of RMB unless otherwise stated)

22 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers:

	As at 31 December	
	2016	2015
Corporate loans and advances		
– Corporate loans	179,201,470	157,429,870
– Discounted bills	16,761,362	21,610,553
Subtotal	195,962,832	179,040,423
Personal loans and advances		
– Mortgage loans	60,672,004	44,627,089
– Personal business	8,689,625	10,316,157
– Others	12,046,187	9,450,523
Subtotal	81,407,816	64,393,769
Total	277,370,648	243,434,192
Less: Allowance for impairment losses		
– Collectively assessed	(6,882,493)	(5,314,731)
– Individually assessed	(1,152,014)	(691,358)
Total allowance for impairment losses	(8,034,507)	(6,006,089)
Loans and advances to customers, net	269,336,141	237,428,103

(b) Movement on allowance for losses on loans and advances to customers listed by assessment method:

	2016		2015	
	Collectively assessed allowance	Individually assessed allowance	Collectively assessed allowance	Individually assessed allowance
Balance at beginning of the year	5,314,731	691,358	4,235,487	426,936
Impairment allowances charge (Note 13)	2,611,211	2,156,293	1,769,360	916,682
Unwinding of discount on allowance	(60,505)	(28,899)	(42,897)	(22,354)
Recoveries	26,230	131,599	18,385	48,048
Written-offs	(960,770)	(1,846,741)	(665,604)	(677,954)
Balance at end of the year	6,930,897	1,103,610	5,314,731	691,358

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Movement on allowance for losses on loans and advances to customers listed by customer category:

	2016		2015	
	Corporate	Retail	Corporate	Retail
Balance at beginning of the year	4,658,802	1,347,287	3,931,138	731,285
Impairment allowances charge	3,705,487	1,062,015	2,020,431	665,611
Unwinding of discount on allowance	(68,539)	(20,865)	(62,717)	(2,534)
Recoveries	131,599	26,230	48,048	18,385
Written-offs	(2,414,017)	(393,492)	(1,278,098)	(65,460)
Balance at end of the year	6,013,332	2,021,175	4,658,802	1,347,287

(d) Loans listed by assessment method for allowance:

As at 31 December 2016	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances			Subtotal	Total
		for which allowance is collectively assessed	for which allowance is individually assessed			
– Corporate loans and advances	193,692,542	918,744	1,351,546	2,270,290	195,962,832	
– Personal loans and advances	80,710,800	697,016	–	697,016	81,407,816	
Allowance for impairment losses	(5,930,044)	(1,000,853)	(1,103,610)	(2,104,463)	(8,034,507)	
Loans and advances to customers, net	268,473,298	614,907	247,936	862,843	269,336,141	

As at 31 December 2015	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances			Subtotal	Total
		for which allowance is collectively assessed	for which allowance is individually assessed			
– Corporate loans and advances	177,176,562	405,505	1,458,356	1,863,861	179,040,423	
– Personal loans and advances	63,859,892	533,877	–	533,877	64,393,769	
Allowance for impairment losses	(4,882,393)	(432,338)	(691,358)	(1,123,696)	(6,006,089)	
Loans and advances to customers, net	236,154,061	507,044	766,998	1,274,042	237,428,103	

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(All amounts expressed in thousands of RMB unless otherwise stated)

23 FINANCIAL INVESTMENTS

	As at 31 December	
	2016	2015
Available-for-sale financial assets		
Listed outside Hong Kong		
– Debt securities	32,548,360	23,920,037
– Certificates of deposit	14,605,375	229,191
Unlisted		
– Trust plans and asset management plans sponsored by other financial institutions ⁽¹⁾	60,613,663	68,075,176
– Equity securities	9,500	9,560
– Non-guaranteed wealth management products managed by other banks	13,500,000	4,500,000
Subtotal	121,276,898	96,733,964
Allowance for impairment losses	(892,508)	(462,316)
Available-for-sale financial assets, net	120,384,390	96,271,648
Held-to-maturity investments		
Listed outside Hong Kong		
– Debt securities	52,351,451	42,257,244
	52,351,451	42,257,244
Debt instruments classified as loans and receivables		
Unlisted		
– Debt securities	105,625	119,519
– Non-guaranteed wealth management products managed by other banks	6,000,000	5,800,000
– Trust plans and asset management plans sponsored by other financial institutions ⁽¹⁾	155,177,254	83,846,659
Subtotal	161,282,879	89,766,178
Allowance for impairment losses	(1,611,771)	(631,926)
Financial Investments, net	159,671,108	89,134,252

Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

- (1) Trust plans and asset management plans sponsored by other financial institutions invested by the Group are the usufruct in trusts or asset management plans sponsored by other financial institutions. The investment decisions of these products are made by the third-party asset managers or custodians. They mainly invest in collective investment products including: (a) liquid assets: deposits, repurchase agreements, money market funds and other cash management products, bond funds; bonds traded in exchange and inter-bank market, convertible bonds, ABS and ABN, or other qualified highly-liquid assets. (b) Financing assets issued by financial institutions with good reputations and no default history as well as adequate cash flow to repay the principal and interests. Risk mitigation are adequate and the risks are relatively low. The security type includes entrusted loans bought from other financial institutions, specific asset usufruct and etc. (c) Products issued by other financial institutions mainly including fixed rate financial products issued by investment funds, trusts, insurance companies, securities companies, commercial banks and etc.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

23 FINANCIAL INVESTMENTS (Continued)

Trust plans and asset management plans sponsored by other financial institutions can be analyzed by security type and counterparty as follows:

	As at 31 December	
	2016	2015
Available-for-sale financial assets		
Unsecured products issued by financial institutions	53,580,713	47,426,476
Guaranteed by third- party companies	2,457,230	6,178,700
Collateralized by properties	2,675,920	13,770,000
Senior tranches of ABS	1,899,800	300,000
Pledged by certificates of deposits and bank acceptances	–	400,000
Total	60,613,663	68,075,176
Debt instruments classified as Loans and Receivables		
Guaranteed by repurchase agreements within Partnership	86,912,872	37,882,722
Pledged by certificates of deposits and bank acceptances	27,939,455	23,118,384
Unsecured products issued by financial institutions	16,657,281	12,703,883
Senior tranches of ABS	13,565,332	4,499,900
Guaranteed by third- party companies	6,531,230	41,770
Collateralized by properties	3,571,084	–
Guaranteed by other financial institutions	–	5,600,000
Total	155,177,254	83,846,659

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

23 FINANCIAL INVESTMENTS (Continued)

Financial investments are analyzed by issuer as follows:

	As at 31 December	
	2016	2015
Available-for-sale financial assets		
Issuers in PRC mainland		
– Government	16,895,906	9,108,252
– Corporates	4,350,550	4,674,942
– Banks and Other non-bank financial institutions	100,020,942	82,941,210
Subtotal	121,267,398	96,724,404
Equity securities	9,500	9,560
Subtotal	121,276,898	96,733,964
Allowance for impairment losses	(892,508)	(462,316)
Available-for-sale financial assets, net	120,384,390	96,271,648
Held-to-maturity investments		
Issuers in PRC mainland		
– Government	39,198,585	28,019,977
– Corporates	4,109,157	4,198,343
– Banks and Other non-bank financial institutions	9,043,709	10,038,924
	52,351,451	42,257,244
Debt instruments classified as loans and receivables		
Issuers in PRC mainland		
– Government	105,625	119,519
– Banks and Other non-bank financial institutions	161,177,254	83,846,659
Subtotal	161,282,879	89,766,178
Allowance for impairment losses	(1,611,771)	(631,926)
Debt instruments classified as loans and receivables, net	159,671,108	89,134,252

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24 INVESTMENT IN ASSOCIATES

Investments in associates of the Group comprise of ordinary shares of unlisted companies as follows:

As at 31 December 2016

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	22,857,442	20,164,214	1,569,597	670,754	20%

As at 31 December 2015

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	19,963,026	17,837,427	1,193,676	439,881	20%

	2016	2015
Balance at beginning of the year	413,581	325,605
Cash dividends received	(19,000)	–
Share of profits	144,065	87,976
Balance at end of the year	538,646	413,581

Chery Motor Finance Service Co., Ltd. was established in 2009, with registered capital of RMB500 million, among which the Group accounted for RMB100 million or 20%. With the approval of CBRC Anhui Branch on 24 December 2012, the registered capital of Chery Motor Finance Service Co., Ltd. was authorized to increase to RMB1 billion. As at 31 December 2013, the Group's share in this associate was RMB200 million or 20%. In 2014, this company has completed its shareholding reform, renamed as Chery Huiyin Motor Finance Service Co., Ltd.

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25 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor Vehicles	Electronic and other equipment	Construction in progress	Total
Cost					
As at 1 January 2016	1,506,184	67,590	1,126,262	162,697	2,862,733
Additions	–	661	229,263	200,478	430,402
Transfers in/(out)	–	–	9,766	(9,766)	–
Disposals	–	(1,336)	(44,094)	–	(45,430)
Other transfers out	–	–	–	(72,780)	(72,780)
As at 31 December 2016	1,506,184	66,915	1,321,197	280,629	3,174,925
Accumulated depreciation					
As at 1 January 2016	(548,762)	(45,389)	(651,200)	–	(1,245,351)
Depreciation charge	(67,737)	(8,038)	(177,055)	–	(252,830)
Disposals	–	1,292	41,206	–	42,498
As at 31 December 2016	(616,499)	(52,135)	(787,049)	–	(1,455,683)
Net book value	889,685	14,780	534,148	280,629	1,719,242

	Buildings	Motor Vehicles	Electronic and other equipment	Construction in progress	Total
Cost					
As at 1 January 2015	1,207,827	65,654	1,061,625	158,692	2,493,798
Additions	142,283	2,183	113,386	177,209	435,061
Transfers in/(out)	156,074	–	–	(156,074)	–
Disposals	–	(247)	(48,749)	–	(48,996)
Other transfers out	–	–	–	(17,130)	(17,130)
As at 31 December 2015	1,506,184	67,590	1,126,262	162,697	2,862,733
Accumulated depreciation					
As at 1 January 2015	(486,283)	(36,321)	(556,160)	–	(1,078,764)
Depreciation charge	(62,479)	(9,095)	(142,841)	–	(214,415)
Disposals	–	27	47,801	–	47,828
As at 31 December 2015	(548,762)	(45,389)	(651,200)	–	(1,245,351)
Net book value	957,422	22,201	475,062	162,697	1,617,382

All lands and buildings of the Group are located outside Hong Kong.

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(All amounts expressed in thousands of RMB unless otherwise stated)

26 FINANCE LEASE RECEIVABLES

As at 31 December 2016	Within 1 year	1-3 years	Over 3 years	Total
Finance lease receivables	5,700,216	10,174,823	4,956,010	20,831,049
Unrealized revenue	(938,762)	(1,114,409)	(262,120)	(2,315,291)
Less: impairment allowance	(81,662)	(155,182)	(79,805)	(316,649)
Net	4,679,792	8,905,232	4,614,085	18,199,109

As at 31 December 2015	Within 1 year	1-3 years	Over 3 years	Total
Finance lease receivables	1,999,133	3,894,001	2,753,726	8,646,860
Unrealized revenue	(405,437)	(493,636)	(150,246)	(1,049,319)
Less: impairment allowance	(19,945)	(42,565)	(32,763)	(95,273)
Net	1,573,751	3,357,800	2,570,717	7,502,268

The Group's finance lease receivables are all managed by its subsidiary Huishang Bank Financial Leasing Co., LTD. For the year ended 31 December 2016, the principle of the Group's top five finance lease receivables and the related allowance are RMB2,222,275 thousands and RMB33,867 thousands respectively, which accounted for 10.67% and 10.70% of the total balance respectively (31 December 2015: the principle of the Group's top five finance lease receivables and the related allowance are RMB1,630,000 thousands and RMB20,375 thousands respectively, which accounted for 21.45% and 21.39% of the total balance respectively).

27 OTHER ASSETS

	As at 31 December	
	2016	2015
Interest receivables ^(a)	3,696,629	3,477,637
Other receivables ^(b)	711,076	662,308
Less: impairment allowance	(97,804)	(29,109)
Long-term prepaid expenses	245,395	212,555
Land use rights ^(c)	160,481	164,707
Intangible assets ^(d)	109,663	91,448
Funds to be settled	168,315	105,798
Foreclosed assets	149,634	85,335
Others	137,457	119,853
	5,280,846	4,890,532

(a) Interest receivables

	As at 31 December	
	2016	2015
Placements with and loans and advances to banks, other financial institutions, and the central bank	54,410	332,350
Financial investments and financial assets at fair value through profit or loss	2,884,928	2,440,833
Loans and advances to customers	664,423	659,178
Finance lease receivables	92,868	45,276
	3,696,629	3,477,637

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(All amounts expressed in thousands of RMB unless otherwise stated)

27 OTHER ASSETS (Continued)

(b) Other receivables

The Group's and Bank's other receivables are analysed by age as follows:

As at 31 December 2016	Within 1 year	1-3 years	Over 3 years	Total
Other receivables	613,267	89,840	7,969	711,076
Less: bad debt allowance	(52,598)	(39,602)	(5,604)	(97,804)
Net	560,669	50,238	2,365	613,272

As at 31 December 2015	Within 1 year	1-3 years	Over 3 years	Total
Other receivables	620,140	35,462	6,706	662,308
Less: bad debt allowance	(14,187)	(11,494)	(3,428)	(29,109)
Net	605,953	23,968	3,278	633,199

(c) Land use rights

	2016	2015
Cost		
Balance at beginning of the year	171,835	171,835
Additions	-	-
Balance at end of the year	171,835	171,835
Accumulated amortization		
Balance at beginning of the year	(7,128)	(2,902)
Additions	(4,226)	(4,226)
Balance at end of the year	(11,354)	(7,128)
Net book value		
At end of the year	160,481	164,707

(d) Intangible assets

Intangible assets of the Group mainly are computer software.

	2016	2015
Cost		
Balance at beginning of the year	235,110	208,808
Additions	49,235	26,302
Balance at end of the year	284,345	235,110
Accumulated amortization		
Balance at beginning of the year	(143,662)	(110,767)
Additions	(31,020)	(32,895)
Balance at end of the year	(174,682)	(143,662)
Net book value		
At end of the year	109,663	91,448

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(All amounts expressed in thousands of RMB unless otherwise stated)

28 IMPAIRMENT ALLOWANCE

	As at 1 January 2016		Recovery	Deductions		As at 31 December 2016
	2016	Additions		Reversal	Write-off	2016
Loans and advances	(6,006,089)	(4,767,504)	(157,829)	89,404	2,807,511	(8,034,507)
Deposits with banks and other financial institutions	(3)	-	-	-	-	(3)
Foreclosed assets	(38)	-	-	-	-	(38)
Financial investments available-for-sale	(462,316)	(430,252)	-	-	60	(892,508)
Financial investments Debt instruments classified as loans and receivables	(631,926)	(979,845)	-	-	-	(1,611,771)
Finance lease receivables	(95,273)	(221,376)	-	-	-	(316,649)
Other receivables	(29,109)	(87,936)	(62)	-	19,303	(97,804)
	(7,224,754)	(6,486,913)	(157,891)	89,404	2,826,874	(10,953,280)

	As at 1 January 2015		Recovery	Deductions		As at 31 December 2015
	2015	Additions		Reversal	Write-off	2015
Loans and advances	(4,662,423)	(2,686,042)	(66,433)	65,251	1,343,558	(6,006,089)
Deposits with banks and other financial institutions	(3)	-	-	-	-	(3)
Foreclosed assets	(38)	-	-	-	-	(38)
Financial investments available-for-sale	(218,721)	(243,595)	-	-	-	(462,316)
Financial investments Debt instruments classified as loans and receivables	-	(631,926)	-	-	-	(631,926)
Finance lease receivables	-	(95,273)	-	-	-	(95,273)
Other receivables	(29,265)	-	(552)	-	708	(29,109)
	(4,910,450)	(3,656,836)	(66,985)	65,251	1,344,266	(7,224,754)

29 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2016	2015
Banks in PRC mainland	49,242,466	48,403,505
Other financial institutions in PRC mainland	33,892,643	40,792,446
Banks outside PRC mainland	81,193	90,235
	83,216,302	89,286,186

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30 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2016	2015
Banks in PRC mainland	15,352,085	7,911,163

31 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 31 December	
	2016	2015
Securities sold under repurchase agreements	25,768,996	24,590,312
Bills sold under repurchase agreements	4,386,716	20,841,455
Precious metal sold under repurchase agreements	2,463,530	–
	32,619,242	45,431,767

32 CUSTOMER DEPOSITS

	As at 31 December	
	2016	2015
Corporate demand deposits	191,066,901	139,969,744
Corporate time deposits	141,819,676	103,212,991
Retail demand deposits	43,420,520	33,410,168
Retail time deposits	62,111,749	53,360,372
Other deposits	23,595,563	29,271,279
	462,014,409	359,224,554
Including:		
Pledged deposits held as collateral	23,116,729	28,751,563

33 INCOME TAX PAYABLE

	As at 31 December	
	2016	2015
Corporate income tax	1,500,281	1,036,414
Tax and surcharges	2,396	402,313
Value added tax	5,986	–
Others	50,598	28,630
	1,559,261	1,467,357

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34 OTHER LIABILITIES

	As at 31 December	
	2016	2015
Interest payable ^(a)	7,094,657	5,988,926
Settlement fund	3,242,531	2,169,100
Salary and welfare payable ^(b)	1,598,652	1,323,732
Deposits under lease arrangements ^(c)	1,973,109	809,801
Dividends payable	200,398	209,536
Entrusted services	187,456	106,917
Suspense accounts	35,589	38,246
Project funds payable	27,518	19,139
Others	954,574	353,239
	15,314,484	11,018,636

(a) Interest payable

	As at 31 December	
	2016	2015
Deposits and placement from banks and other financial institutions	1,021,972	1,254,164
Customer deposits	5,426,726	4,126,340
Debt securities issued	645,959	608,422
	7,094,657	5,988,926

(b) Salary and welfare payable

	As at 31 December	
	2016	2015
Short-term employee benefits	1,501,825	1,212,429
Defined contribution plans	20,777	29,224
Termination benefits	76,050	82,079
	1,598,652	1,323,732

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(All amounts expressed in thousands of RMB unless otherwise stated)

34 OTHER LIABILITIES (Continued)

(b) Salary and welfare payable (Continued)

Short-term employee benefits

	As at 1 January 2016	Increase in current year	Decrease in current year	As at 31 December 2016
Wages, bonuses	882,918	2,072,651	(1,791,675)	1,163,894
Employee benefits	187	120,081	(120,268)	-
Social insurance	886	72,802	(72,838)	850
Including: Medical Insurance	822	64,705	(64,748)	779
Occupational Injury Insurance	32	2,001	(1,997)	36
Maternity Insurance	32	6,096	(6,093)	35
Housing fund	906	138,970	(136,797)	3,079
Labour union fee and staff education fee	13,719	75,525	(69,055)	20,189
Other short-term employee benefits	313,813	37,383	(37,383)	313,813
	1,212,429	2,517,412	(2,228,016)	1,501,825

	As at 1 January 2015	Increase in current year	Decrease in current year	As at 31 December 2015
Wages, bonuses	728,162	1,593,490	(1,438,734)	882,918
Employee benefits	702	382	(897)	187
Social insurance	1,074	62,782	(62,970)	886
Including: Medical Insurance	1,037	54,148	(54,363)	822
Occupational Injury Insurance	25	3,246	(3,239)	32
Maternity Insurance	12	5,388	(5,368)	32
Housing fund	535	140,538	(140,167)	906
Labour union fee and staff education fee	12,549	54,299	(53,129)	13,719
Other short-term employee benefits	313,813	571	(571)	313,813
	1,056,835	1,852,062	(1,696,468)	1,212,429

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

34 OTHER LIABILITIES (Continued)

(b) Salary and welfare payable (Continued)

Defined contribution plans

	As at 1 January 2016	Increase in current year	Decrease in current year	As at 31 December 2016
Basic pension insurance	5,395	140,442	(139,393)	6,444
Unemployment Insurance	226	9,901	(9,856)	271
Annuity scheme	23,603	136,424	(145,965)	14,062
	29,224	286,767	(295,214)	20,777

	As at 1 January 2015	Increase in current year	Decrease in current year	As at 31 December 2015
Basic pension insurance	5,933	115,729	(116,267)	5,395
Unemployment Insurance	239	10,210	(10,223)	226
Annuity scheme	41,870	98,295	(116,562)	23,603
	48,042	224,234	(243,052)	29,224

Termination benefits

	As at 31 December 2016	As at 31 December 2015
Early retirement benefits	76,050	82,079

(c) Deposits under lease arrangements

For the year ended 31 December 2016, the Group's deposits under lease arrangements are all contributed by its subsidiary Huishang Bank Financial Leasing Co., Ltd.

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35 DEFERRED INCOME TAXES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority. The movement in the deferred income tax account is as follows:

	2016	2015
Balance at beginning of the year	1,274,063	955,787
Charged to income statement	904,582	444,958
Charged to other comprehensive income	130,461	(126,682)
Balance at end of the year	2,309,106	1,274,063

Items included in deferred tax assets and liabilities are as follows:

	2016	2015
Deferred tax assets		
Impairment allowance for assets	1,917,144	1,078,891
Salary and welfare payable	337,951	258,748
Changes in fair value of financial investments	50,297	4,052
Others	99,047	32,817
	2,404,439	1,374,508
Deferred income tax liabilities		
Changes in fair value of financial investments	-	(100,445)
Others	(95,333)	-
	(95,333)	(100,445)
Deferred tax assets, net	2,309,106	1,274,063

Deferred taxes charged to the statement of comprehensive income comprise the following temporary differences:

	2016	2015
Impairment allowance for assets	838,253	394,464
Salary and welfare payable	79,203	35,312
Changes in fair value	(79,104)	(4,442)
Others	66,230	19,624
	904,582	444,958

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36 DEBT SECURITIES ISSUED

	As at 31 December	
	2016	2015
Subordinated debts with fixed rate-2026 ^(a)	3,993,248	3,991,375
Financial bonds for SMEs-2016 ^(b)	–	2,798,426
Financial bonds for SMEs-2018 ^(c)	2,198,324	2,198,002
Financial bonds 01-2018 ^(d)	3,498,440	3,497,583
Financial bonds 02-2020 ^(e)	499,700	499,631
Tier 2 capital bonds-2025 ^(f)	7,987,518	7,986,356
Financial bonds 03-2018 ^(g)	3,498,364	3,497,444
Financial bonds 04-2020 ^(h)	499,696	499,620
Financial bonds 01-2019 ⁽ⁱ⁾	6,999,134	–
Financial bonds 02-2021 ^(j)	2,999,607	–
Certificates of deposit issued ^(k)	59,331,219	54,457,263
	91,505,250	79,425,700

- (a) The Group issued RMB4 billion of subordinated debts on 2 April 2011 in China's inter-bank bond market, with a maturity of 15 years and a fixed coupon rate of 6.55%, paid annually. The Group has an option to redeem these debts at face value on 2 April 2021.

Claims on subordinated debts are posterior to other liabilities but prior to the Group's share capital. From 1 January 2013, they are qualified for inclusion as Tier 2 capital in the calculation of capital adequacy ratio in accordance with "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC.

- (b) The Group issued RMB2.8 billion of financial bonds designated for lending to small and medium size enterprises ("SMEs") on 19 March 2013 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.30%, paid annually.
- (c) The Group issued RMB2.2 billion of financial bonds designated for SMEs lending on 19 March 2013 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.50%, paid annually.
- (d) The Group issued RMB3.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.15%, paid annually.
- (e) The Group issued RMB0.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.35%, paid annually.
- (f) The Group issued RMB8.0 billion of tier 2 capital bonds on 11 September 2015 in China's inter-bank bond market, with a maturity of 10 years and a fixed coupon rate of 4.69%, paid annually. The Group has an option to redeem part or all of the bonds at face value on 11 September 2020, subject to regulatory approval. Tier 2 capital bond's right of recourse is subordinate to depositors and ordinary debts and is superior to equity, other tier 1 capital instruments and mixed capital debts.

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(All amounts expressed in thousands of RMB unless otherwise stated)

36 DEBT SECURITIES ISSUED (Continued)

- (g) The Group issued RMB3.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 3.90%, paid annually.
- (h) The Group issued RMB0.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.10%, paid annually.
- (i) The Group issued RMB7 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.98%, paid annually.
- (j) The Group issued RMB3 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.09%, paid annually.
- (k) The Group issued 114 certificates of deposit at discounts with total face value of RMB101.39 billion with the maturities ranging from one month to one year, also issued 7 certificates of deposit with floating rate with total face value of RMB3.90 billion with the maturities ranging from one year to two year in 2015. As at 31 December 2016, the face value of the undue certificates of deposit issued is RMB60.12 billion.

As of 2016, there are no defaults on principal and interest or other breaches to the agreements with respect to these debt securities.

37 SHARE CAPITAL, CAPITAL RESERVE AND OTHER EQUITY INSTRUMENTS

(1) Share capital

The Bank's share capital is comprised of fully paid common shares in issue, with par value of RMB1 per share. The number of shares is as follows:

	As at 31 December	
	2016	2015
Number of shares authorized, issued and fully paid at par value (in thousands)	11,049,819	11,049,819

(2) Capital reserve

Transactions of the following natures are recorded in the capital reserve:

- (i) share premium arising from the issuance of shares at prices in excess of their par value;
- (ii) donations received from shareholders; and
- (iii) any other items required by the PRC regulations.

Capital surplus can be utilized for the issuance of stock dividend or for increasing paid-in capital as approved by the shareholders.

The Group's capital surplus is as follows:

	As at 31 December	
	2016	2015
Share premium	6,751,041	6,751,041

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37 SHARE CAPITAL, CAPITAL RESERVE AND OTHER EQUITY INSTRUMENTS (Continued)

(3) Other Equity Instruments

(a) Preference shares outstanding as at the end of the year

Preference Shares	Issue date	Classification	Initial interest rate	Issue price	Quantity (million)	Original Currency (USD)	(RMB)	Maturity date	Conversion conditions
2016 Offshore Preference Shares	10 November 2016	Equity instruments	5.50%	\$20/share	44.4	888,000	6,028,188	No maturity date	None
Total amount							6,028,188		
Less: Issuance fee							(38,098)		
Carrying amount							5,990,090		

The key terms are as below:

(1) Dividend

The initial annual dividend rate is 5.50% and is subsequently subject to reset per agreement. Subject to a resolution to be passed at a shareholders' general meeting of the Bank, the Bank may elect to cancel (in whole or in part) any dividend otherwise scheduled to be paid on a dividend payment date in the manner set out in the Conditions. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness that are due and payable.

(2) Redemption

The Bank may, subject to obtaining CBRC approval and compliance with the redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem in whole or in part of the Offshore Preference Shares on the first reset date and on any dividend payment date thereafter. The redemption price for each Offshore Preference Share so redeemed shall be the aggregate of an amount equal to its liquidation preference plus any declared but unpaid dividends.

(3) Compulsory conversion of preference shares

If any Trigger Event occurs, the Bank shall (having notified and obtained the consent of the CBRC but without the need for the consent of holders of preference shares or the holders of ordinary shares): irrevocably and compulsorily convert all or some only of the Offshore Preference Shares into such number of H Shares.

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37 SHARE CAPITAL, CAPITAL RESERVE AND OTHER EQUITY INSTRUMENTS (Continued)

(3) Other Equity Instruments (Continued)

(b) Changes in preference shares outstanding

Preference Shares	1 January 2016		Increase		31 December 2016	
	Amount (million shares)	Carrying value (RMB million)	Amount (million shares)	Carrying value (RMB million)	Amount (million shares)	Carrying value (RMB million)
2016 offshore preference shares	-	-	44.4	5,990,090	44.4	5,990,090

(c) Interests attribute to the holders of equity instruments

	2016	2015
1. Total equity attribute to equity holders of the Bank	51,871,401	41,159,144
(1) Equity attribute to ordinary equity holders of the Bank	45,881,311	41,159,144
(2) Equity attribute to other equity holders of the Bank	5,990,090	-
2. Total equity attribute to non-controlling interests	1,311,917	1,186,117

38 SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Surplus reserve (a)	Statutory general reserve (b)
As at 1 January 2015	4,071,254	3,743,460
Appropriation to surplus reserve	1,178,712	-
Appropriation to statutory general reserve	-	972,833
As at 31 December 2015	5,249,966	4,716,293
Appropriation to surplus reserve	1,286,331	-
Appropriation to statutory general reserve	-	1,492,022
As at 31 December at 2016	6,536,297	6,208,315

(a) Surplus reserve

Pursuant to the "Company Law of the PRC" and the Group's Articles of Association, the Group is required to appropriate 10% of its net profit in statutory financial statements to a non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. The Bank can appropriate to the discretionary surplus reserve after statutory surplus reserve have been made.

As at 31 December 2016 and 2015, the Bank's statutory surplus reserve balances were 3,814,804 thousands and RMB3,140,162 thousands respectively. The others were discretionary surplus reserve.

(b) Statutory general reserve

Pursuant to Cai Jin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirements") issued by Ministry of Finance on 20 March 2012, the statutory general reserve should not be less than 1.5% of the aggregate amount of risk assets, and the minimum threshold can be accumulated over a period of no more than five years. The Requirements were effective from 1 July 2012.

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39 DIVIDENDS

	2016	2015
Dividends declared for the year	1,756,922	1,755,784
Dividends per ordinary share (RMB)	0.159	0.159
Dividends paid during the year	1,766,060	1,679,987

The final dividend of RMB0.061 per share in respect of the year of 2016 amounting to RMB675 million in total has been proposed by the directors and is subject to approval by the shareholders in the general meeting.

Under the "Company Law of the PRC" and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up cumulative losses from prior years, if any;
- (ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank;
- (iii) Allocations to the discretionary reserve with approval from the General Meetings of Shareholders. These funds form part of the shareholders' equity.

In accordance with the relevant regulations, the net profit after tax of the Group for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with PRC Generally Accepted Accounting Principles and (ii) the retained profit determined in accordance with IFRS.

40 FINANCIAL GUARANTEE AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantee and credit commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit commitments:

	As at 31 December	
	2016	2015
Bank bills acceptance	39,097,490	45,275,957
Loan commitments	1,694,421	8,513,436
Letters of credit issued	3,693,397	1,833,356
Unused credit card limits	8,823,994	6,293,828
Letters of guarantee issued	9,634,980	4,249,333
	62,944,282	66,165,910

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40 FINANCIAL GUARANTEE AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(b) Capital commitments

	As at 31 December	
	2016	2015
Contracted but not yet incurred	120,689	144,711

(c) Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under irrevocable rental contracts as follows:

	As at 31 December	
	2016	2015
Within 1 year	297,607	224,169
Between 1 year to 5 years	770,940	629,040
More than 5 years	243,015	253,332
	1,311,562	1,106,541

(d) Treasury bond redemption commitments

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2016 and 2015, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity were RMB1,694 million and RMB1,783 million respectively.

(e) Legal proceedings

During the reporting period, the Group was involved as defendants in certain lawsuits arising from its normal business operations. At 31 December 2016, provision for litigation losses as advised by in-house or external legal professionals was 135,709 thousands (31 December 2015: 65,597 thousands). Based on legal advice, the management of the Group believes that the legal proceedings initiated against the Group would not have a material impact on the financial position or operations of the Group.

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41 GUARANTY

(a) Pledged assets

Assets are pledged as collateral under repurchase agreements and for treasury deposits with other banks and Ministry of Finance.

	As at 31 December	
	2016	2015
Available-for-sale financial assets	11,353,104	7,834,272
Held-to-maturity investments	12,952,985	12,387,051
Bills held under resale agreements	–	18,305,170
Discounted bills	4,382,331	2,577,160
Total	28,688,420	41,103,653

The carrying value of financial assets sold under repurchase agreements by the Group as at 31 December 2016 was RMB32,619 million (as at 31 December 2015 RMB45,432 million) as set out in Note 31 Financial Assets Sold under Repurchase Agreements. Repurchase agreements are primarily due within 12 months from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. There have no debt securities with title transferred to counterparties recorded in financial assets sold under repurchase agreements that the Group did not derecognize as at 31 December 2016 (as at 31 December 2015: RMB4,539 million).

In addition, the Group has no debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions.

(b) Collateral accepted

The Group received debt securities, bills and other assets as collateral in connection with the purchase of assets under resale agreements. Certain of these collateral can be re-pledged. The Group has accepted collateral that can be re-pledged with a carrying amount of RMB516 million as at 31 December 2016 (31 December 2015: RMB24,615 million). The Group has accepted collateral that can be re-pledged and the Group has the right to return with a carrying amount of RMB0 million as at 31 December 2016 (31 December 2015: RMB18,305 million).

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42 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

	As at 31 December	
	2016	2015
Financial guarantees and credit related commitments	22,737,419	25,300,430

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and credit related commitments.

43 OTHER COMPREHENSIVE INCOME

	2016		
	Pre-tax amount	Tax charge	Net-of-tax amount
Other comprehensive income	360,848	(90,212)	270,636
Fair value changes in available-for-sale	(650,441)	162,610	(487,831)
Less: Amounts previously recognised in other comprehensive income reclassified to profit or loss	128,597	(32,149)	96,448
Other comprehensive income for the year	(160,996)	40,249	(120,747)

	2015		
	Pre-tax amount	Tax charge	Net-of-tax amount
Other comprehensive income	(145,881)	36,470	(109,411)
Fair value changes in available-for-sale	525,536	(131,384)	394,152
Less: Amounts previously recognised in other comprehensive income reclassified to profit or loss	(18,807)	4,702	(14,105)
Other comprehensive income for the year	360,848	(90,212)	270,636

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44 STRUCTURED ENTITIES

(a) Unconsolidated structured entities managed by the Group

The unconsolidated structure entities managed by the Group are mainly wealth management products (“WMP”) issued and managed by the Bank acting as an agent, which are not subject to any guarantee by the Group of the principal invested or interest to be paid. Based on the analysis and research of the potential target customers, the Group designs and offers wealth management products to meet the needs of the customers. The raised funds were invested in related financial markets or financial products in accordance with the product contracts. Gains would be allocated to investors after the Group gained from investment. The Group receives commission income as the manager of these wealth management products. For the year ended 31 December 2016 and 2015, total wealth commission income the Group received were RMB328,335 thousands and RMB67,299 thousands respectively. The Group considered its variable returns from the structured entities are insignificant and hence they are not consolidated.

As at 31 December 2016, the carrying value of the off-balance sheet wealth management the Group issued and managed is RMB71,449 million (31 December 2015: RMB36,725 million). As at 31 December 2016, the Group’s maximum exposure to these unconsolidated structured entities is 0 (31 December 2015: 0).

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group’s risk from or reduce its interest in WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by WMPs before other parties. No loss was incurred by the WMP vehicles relating to the Group’s interests in the WMP vehicles, and the WMP vehicles did not experience difficulty in financing their activities.

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44 STRUCTURED ENTITIES (Continued)

(b) Unconsolidated structured entities invested by the Group

To maximize the usage of capital, the Group enters into transactions with unconsolidated structured entities which include wealth management products and the asset management schemes issued by other independent third parties in 2015 and 2016. The Group classifies these assets into “Debt instruments classified as loans and receivables” or “available-for-sale financial assets” based on their nature. As the investor of these entities, the Group earns interest from these transactions. The Group has not provided any liquidity support to these unconsolidated structured entities in 2015 and 2016.

The table below shows the carrying value and scale of unconsolidated structured entities invested by the Group.

	Carrying Value	Maximum Exposure to Loss
At 31 December 2016		
Debt instruments classified as loans and receivables		
– Guaranteed wealth management products	6,000,000	6,000,000
– Trust plans and asset management plans	153,565,483	153,565,483
Available-for-sale financial assets		
– Non-guaranteed wealth management products	13,500,000	13,500,000
– Trust plans and asset management plans	59,721,155	59,721,155

	Carrying Value	Maximum Exposure to Loss
At 31 December 2015		
Debt instruments classified as loans and receivables		
– Guaranteed wealth management products	5,800,000	5,800,000
– Trust plans and asset management plans	83,214,733	83,214,733
Available-for-sale financial assets		
– Non-guaranteed wealth management products	4,500,000	4,500,000
– Trust plans and asset management plans	67,612,920	67,612,920

The information of total size of the unconsolidated structured entities listed above is not readily available from the public.

(c) Consolidated structured entities

Consolidated structured entities include guaranteed wealth management products established and managed by the Group and trust plans and asset management plans which the Group made the investment decision.

The Group did not provide liquidity support to these consolidated structured entities during 2015 and 2016.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

45 NOTES TO THE STATEMENT OF CASH FLOWS

For the purpose of the statement of cash flow, cash and cash equivalents comprises the following balances with an original maturity of less than three months:

	As at 31 December	
	2016	2015
Cash	1,352,992	1,179,229
Surplus reserve with central bank	14,707,291	23,494,175
Deposits with banks and other financial institutions	12,714,188	17,631,151
	28,774,471	42,304,555

46 TRANSFER OF FINANCIAL ASSETS

(a) Credit Assets Securitisation Transactions

The Group enters into securitisation transactions in normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors. The Group retains 5% interests in each tranche which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial positions to the extent of the Group's continuing involvement.

As at 31 December 2016, loans with an original carrying amount of RMB656 million (2015: RMB3,087 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 31 December 2016, the carrying amount of assets that the Group continued to recognise was RMB27 million (2015: RMB38 million), and was recognized as available-for-sale financial assets.

(b) Transfer of credit assets

In our daily transaction, the group settles loan assets bought from other financial institutions through transfer them to third party.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS

(1) Related parties

The table below listed major related legal entities of the Group:

Major related legal entities with the Group	Relationship with the Group	Share percentage (%)
Shanghai Soong Ching Ling Foundation	Major shareholders	10.94
Anhui Province Energy Group Co.	Major shareholders	9.59
China Vanke Co., Ltd.	Major shareholders	8.00
Anhui Guoyuan Holding (Group) Co.	Major shareholders	7.19
Anhui Credit Guaranty Group Co.	Major shareholders	6.81

(2) Related party transactions and balances

Related-party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(a) Transactions with major shareholders and balances

As at 31 December 2016 and 31 December 2015, the balances and interest rate ranges of material transactions with major shareholders of the Group are as follows:

	As at 31 December	
	2016	2015
Loans and advances to customers	2,079,998	49,000
Placements from banks and other financial institutions	219,105	28,980
Customer deposits	2,855,395	785,557
	5,154,498	863,537

	As at 31 December	
	2016	2015
Loans and advances to customers	4.75%-5.70%	6.60%
Placements from banks and other financial institutions	0.30%-3.00%	0.72%-2.50%
Customer deposits	0.30%-1.30%	0.35%-1.50%

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

(a) Transactions with major shareholders and balances (Continued)

Transactions with major shareholders during the year are as follows:

	2016	2015
Interest income	11,601	1,852
Interest expense	13,652	15,465
Management fee of asset management plans	2,322	2,028

(b) Transactions with other related parties

As at the balance sheet date, the balances and interest rate ranges of material transactions with other related parties of the Group are as follows:

	As at 31 December	
	2016	2015
Placements with banks and other financial institutions	200,000	–
Loans and advances to customers	5,081	1,271
Deposits from banks and other financial institutions	81,734	101,681
Customer deposits	267,549	29,249
	554,364	132,201

	As at 31 December	
	2016	2015
Placements with banks and other financial institutions	4.30%	N/A
Loans and advances to customers	3.43%-5.39%	4.31%-5.00%
Deposits from banks and other financial institutions	0.72%-1.08%	0.30%-1.08%
Customer deposits	0.30%-1.82%	0.35%-1.30%

Transactions with other related parties during the year are as follows:

	2016	2015
Interest income	146	38
Interest expense	509	2,596

The group granted a five-year housing mortgage loan to one of the senior management named Chen Hao, with annual interest rate of 5.00% in 2016. As at 31 December 2016, the loan balance is RMB1,071 thousand (31 December 2015: RMB1,134 thousand).

(c) Emoluments for directors, supervisors and senior management

	2016	2015
Emoluments for directors, supervisors and senior management	15,576	24,008

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

48 SEGMENT REPORTING

The Group manages the business from both business and geographic perspectives. From the business perspective, the Group provides services through four main business segments listed below:

Corporate banking

Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, and wealth management products.

Retail banking

Services to retail customers including savings deposits, personal loans and advances, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury

Treasury segment conducts securities investment, money market and repurchase transactions. The results of this segment include the inter-segment funding income and expenses, resulting from interest bearing assets and liabilities and foreign currency translation gains and losses.

Others

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

Geographically, the Group mainly conducts its business in Anhui Province and the Yangtze River Delta area of the PRC. All information disclosed is based on the locations of bank branches.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

48 SEGMENT REPORTING (Continued)

	2016				
	Corporate banking	Retail banking	Treasury	Others	Total
External interest income	10,182,676	3,251,179	18,330,143	937,944	32,701,942
External interest expense	(5,066,079)	(1,575,906)	(7,278,456)	(441,880)	(14,362,321)
Intersegment net interest income/(expense)	3,874,336	1,460,371	(5,334,707)	-	-
Net interest income	8,990,933	3,135,644	5,716,980	496,064	18,339,621
Net fee and commission income	1,670,969	559,343	67,362	193,462	2,491,136
Net trading gains	-	-	75,976	-	75,976
Net gains from financial investments	-	-	(67,011)	-	(67,011)
Dividends	-	-	2,770	-	2,770
Other operating income	-	-	8,651	67,266	75,917
Operating expenses	(2,524,260)	(1,727,121)	(1,233,468)	(278,187)	(5,763,036)
– Depreciation and amortization	(192,255)	(167,496)	(6,297)	(6,815)	(372,863)
Impairment losses on assets	(3,577,327)	(1,095,615)	(1,568,641)	(245,330)	(6,486,913)
Share of profits in associates	-	-	-	144,065	144,065
Profit before income tax	4,560,315	872,251	3,002,619	377,340	8,812,525
Capital expenditure	248,832	216,787	8,150	5,762	479,531

As at 31 December 2016

	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	191,487,729	80,833,729	455,467,749	24,675,681	752,464,888
<i>Including: investment in associates</i>	-	-	-	538,646	538,646
Deferred tax assets					2,309,106
Total assets					754,773,994
Segment liabilities	(358,825,240)	(106,448,458)	(215,793,607)	(20,523,371)	(701,590,676)
Off-balance sheet credit commitments	54,035,530	8,823,994	-	84,758	62,944,282

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

48 SEGMENT REPORTING (Continued)

	2015				
	Corporate banking	Retail banking	Treasury	Others	Total
External interest income	12,045,780	3,643,515	12,912,425	339,538	28,941,258
External interest expense	(4,931,136)	(1,483,130)	(7,560,750)	(123,090)	(14,098,106)
Intersegment net interest income/(expense)	1,674,696	262,744	(1,937,440)	–	–
Net interest income	8,789,340	2,423,129	3,414,235	216,448	14,843,152
Net fee and commission income	1,129,774	322,321	222,927	96,258	1,771,280
Net trading gains	–	–	55,439	–	55,439
Net gains from financial investments	–	–	210,419	–	210,419
Dividends	–	–	440	–	440
Other operating income	–	–	34,294	62,076	96,370
Operating expenses	(3,306,412)	(1,458,839)	(485,201)	(184,799)	(5,435,251)
– Depreciation and amortization	(165,437)	(144,132)	(5,418)	(5,517)	(320,504)
Impairment losses on assets	(1,902,639)	(655,856)	(995,800)	(102,541)	(3,656,836)
Share of profits in associates	–	–	–	87,976	87,976
Profit before income tax	4,710,063	630,755	2,456,753	175,418	7,972,989
Capital expenditure	235,988	205,596	7,729	12,050	461,363

	As at 31 December 2015				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	177,712,176	64,654,305	380,348,622	12,141,455	634,856,558
<i>Including: investment in associates</i>	–	–	–	413,581	413,581
Deferred tax assets					1,274,063
Total assets					636,130,621
Segment liabilities	(275,098,197)	(87,680,828)	(219,531,100)	(11,475,235)	(593,785,360)
Off-balance sheet credit commitments	59,445,023	6,293,828	–	427,059	66,165,910

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

48 SEGMENT REPORTING (Continued)

	2016				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
External interest income	12,215,997	2,251,812	18,234,133	–	32,701,942
External interest expense	(4,859,891)	(1,501,726)	(8,000,704)	–	(14,362,321)
Intersegment net interest income/(expense)	4,515,595	336,987	(4,852,582)	–	–
Net interest income	11,871,701	1,087,073	5,380,847	–	18,339,621
Net fee and commission income	952,855	38,437	1,499,844	–	2,491,136
Net trading gains	12,966	392	62,618	–	75,976
Net gains from financial investments	–	–	(67,011)	–	(67,011)
Dividends	–	–	2,770	–	2,770
Other operating income	54,678	519	20,720	–	75,917
Operating expenses	(2,736,977)	(244,225)	(2,781,834)	–	(5,763,036)
– Depreciation and amortization	(236,613)	(15,334)	(120,916)	–	(372,863)
Impairment losses on assets	(4,640,771)	(371,849)	(1,474,293)	–	(6,486,913)
Share of profits in associates	–	–	144,065	–	144,065
Profit before income tax	5,514,452	510,347	2,787,726	–	8,812,525
Capital expenditure	314,318	2,887	162,326	–	479,531

	As at 31 December 2016				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Segment assets	453,208,136	49,295,573	435,162,644	(185,201,465)	752,464,888
<i>Including: investment in associates</i>	–	–	538,646	–	538,646
Deferred tax assets					2,309,106
Total assets					754,773,994
Segment liabilities	(266,681,483)	(45,906,274)	(574,204,384)	185,201,465	(701,590,676)
Off-balance sheet credit commitments	38,223,624	5,479,816	19,240,842	–	62,944,282

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

48 SEGMENT REPORTING (Continued)

	2015				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
External interest income	13,739,142	1,945,912	13,256,204	–	28,941,258
External interest expense	(6,889,521)	(535,654)	(6,672,931)	–	(14,098,106)
Intersegment net interest income/(expense)	3,047,644	(582,462)	(2,465,182)	–	–
Net interest income	9,897,265	827,796	4,118,091	–	14,843,152
Net fee and commission income	870,929	52,261	848,090	–	1,771,280
Net trading gains	37,656	527	17,256	–	55,439
Net gains from financial investments	–	–	210,419	–	210,419
Dividends	–	–	440	–	440
Other operating income	62,000	2	34,368	–	96,370
Operating expenses	(3,375,968)	(283,066)	(1,776,217)	–	(5,435,251)
– Depreciation and amortization	(219,477)	(13,859)	(87,168)	–	(320,504)
Impairment losses on assets	(2,576,296)	(209,276)	(871,264)	–	(3,656,836)
Share of profits in associates	–	–	87,976	–	87,976
Profit before income tax	4,915,586	388,244	2,669,159	–	7,972,989
Capital expenditure	227,100	1,445	232,818	–	461,363

	As at 31 December 2015				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Segment assets	335,142,188	56,924,328	415,008,734	(172,218,692)	634,856,558
<i>Including: investment in associates</i>	–	–	413,581	–	413,581
Deferred tax assets					1,274,063
Total assets					636,130,621
Segment liabilities	(219,484,231)	(67,024,237)	(479,495,534)	172,218,642	(593,785,360)
Off-balance sheet credit commitments	41,204,349	14,504,700	10,456,861	–	66,165,910

There were no material transactions with a single external customer that the Group mainly relies on.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in the business. The Group's aim is therefore to achieve an appropriate balance between risks and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The most important types of risks are credit risk, liquidity risk and market risk which also includes currency risk and interest rate risk.

The Board of Directors is responsible for establishing the overall risk appetite of the Group. Management establishes corresponding risk management policies and procedures covering areas of credit risk, market risk and liquidity risk under the risk appetite approved by the Board of Directors.

49.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk increases when counterparties are within similar industry segments or geographical regions. Credit exposures arise principally in loans and advances to banks, customers and securities. There is also credit risk in off-balance sheet financial arrangements: such as loan commitments. The Group mainly conducts its business in Anhui Province of the PRC, indicating a concentration risk in the Group's credit portfolio which makes it vulnerable to economic changes in the region. Management therefore carefully manages its exposure to credit risks. The credit risk management and control are centralized in the Risk Management Department of Head Office and reported to management regularly.

49.1.1 Credit risk measurement

(i) Loans and advances and off-balance sheet commitments

The Group measures and manages the credit quality of its credit assets through five-category system based on the "Guideline for Loan Credit Risk Classification" (the "Guideline") issued by the CBRC. The Guideline requires commercial banks to classify their credit assets into five categories, namely pass, special-mention, sub-standard, doubtful and loss categories, among which loan classified in sub-standard, doubtful and loss categories are regarded as non-performing loans.

The five categories are defined by the Guideline as follows:

Pass: loans for which borrowers can honor the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.1 Credit risk measurement (Continued)

(i) *Loans and advances and off-balance sheet commitments (Continued)*

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service the loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

(ii) *Debt securities and other bills*

The Group manages the credit risk through restriction on the types of and management of issuers of debt securities and other bills invested. So far, the Group holds no foreign currency bonds.

(iii) *Deposits with banks and other financial institutions, Placements with banks and other financial institutions and Financial assets held under resale agreements*

The Group's Head Office executes regular review and management of credit risk related to individual financial institutions, and sets credit lines for individual banks and other financial institutions that it conducts business with.

(iv) *Other financial assets classified as loans and receivables or available-for-sale*

Other financial assets classified as loans and receivables or available-for-sale, include wealth management products issued and managed by other banks, trust plans and asset management plans. The Group established a risk evaluation system on the trust companies, security companies and fund management companies, set up credit limit for parties and performs ongoing post-lending monitoring on timely basis.

49.1.2 Risk limit control and mitigation policies

The Group manages and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties, groups, industries and regions. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.2 Risk limit control and mitigation policies (Continued)

The Group grants branches and business departments operational authority from Head Office. Based on the status of geographical economy, management level of branches, types of credit products, types of credit rating, collateral type, and scale of customers, Head Office gives flexible and dynamic authority to its branches with respect to credit business. Such authorities are monitored on a revolving basis and subject to a regular review to make sure operations of the branches are within limits of authority granted.

(i) Credit risk mitigation policies

The Group employs a range of policies and practices to mitigate credit risk. The most prevalent policies taken by the Group include the taking of physical or cash collaterals, cash deposit and corporate or individual guarantees.

The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types are:

- Property and land use rights
- General movable assets
- Time deposit certificates, debt securities and commodity warehouse receipts etc.

The fair value of collaterals should be assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan balances against fair value of collateral) for different collaterals. The principal collateral types and maximum loan-to-value ratio for corporate and personal loans and advances are as follows:

Collateral	Maximum loan-to-value ratio
Residential property, commercial property, and construction land use rights	70%
Office buildings	60%
General movable assets	50%
RMB deposit receipts, bank notes, government bonds	90%
Debt securities issued by financial institutions	80%
Commodity warehouse receipt	60%

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.2 Risk limit control and mitigation policies (Continued)

(ii) Credit-related off-balance sheet commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees are irrevocable commitments made by the Group for which the Group must make payments to the third party when its customers fail to satisfy this obligation. Hence, they carry the same credit risks as loans. The Group usually takes cash collateral to mitigate such credit risk. The Group's maximum exposure to credit risk equals the total amount of credit-related off-balance sheet commitments.

49.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December	
	2016	2015
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Balances with the central bank	86,706,368	77,234,805
Deposits with banks and other financial institutions	10,960,598	10,283,249
Placement with banks and other financial institutions	19,319,720	20,990,412
Financial assets at fair value through profit or loss	5,742,117	2,730,120
Derivative financial assets	385,977	3,789
Financial assets held under resale agreements	516,183	42,919,944
Loans and advances to customers	269,336,141	237,428,103
Financial investments – available-for-sale	120,384,390	96,262,148
Financial investments – held-to-maturity	52,351,451	42,257,244
Financial investments – debt instruments classified as loans and receivables	159,671,108	89,134,252
Finance lease receivables	18,199,109	7,502,268
Other financial assets	4,478,216	4,216,634
	748,051,378	630,962,968
Credit risk exposures relation to off-balance sheet items are as follows:		
Bank acceptance	39,097,490	45,275,957
Letters of credit	3,693,397	1,833,356
Letters of guarantee	9,634,980	4,249,333
Loan commitments	1,694,421	8,513,436
Unused credit card Limits	8,823,994	6,293,828
	62,944,282	66,165,910

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

The above table represents the worst-case scenario of credit risk exposure to the Group at 31 December 2016 and 31 December 2015, without taking into account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As mentioned above, 36.01% of on-balance-sheet exposure is attributable to loans and advances to customers (2015: 37.63%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from its loans and advances portfolio based on the following:

- 96.87% of the loans and advances portfolio is categorized as Pass of the five-category system (2015: 95.72%);
- Collateralized loans and mortgage loans, which represents the biggest group in the corporate and retail portfolio respectively, are backed by collateral;
- 97.81% of the loans and advances portfolio are considered to be neither past due nor impaired (2015: 97.24%).

49.1.4 Deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements

Placements with banks and other financial institutions and financial assets hold under resale agreements are neither overdue nor impaired. Their credit risk can be evaluated by the credibility of the counterparties. The Group has accrued sufficient allowance against the impaired deposits with banks and other financial institutions at 31 December 2016 and 31 December 2015.

	2016	2015
Commercial banks in PRC mainland	21,768,144	70,135,105
Other financial institutions in PRC mainland	2,550,845	3,781,099
Commercial banks not in PRC mainland	6,477,512	277,401
	30,796,501	74,193,605

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.5 Loans and advances to customers

(a) Analysis of loans and advances to customers by industry

Concentrations of credit risk of loans and advances to customers by industry are analysed as follow:

	As at 31 December			
	2016		2015	
	Amount	%	Amount	%
Corporate loans				
Commerce and service	58,132,854	21	52,103,324	21
Manufacturing	40,993,942	14	37,420,059	15
Public utilities	36,511,110	13	26,878,790	11
Real estate	11,100,001	4	13,400,133	6
Construction	12,766,086	5	12,899,268	5
Transportation	3,949,700	1	5,432,828	2
Energy and chemistry	5,903,036	2	3,259,571	1
Catering and travelling	1,874,180	1	1,975,712	1
Education and media	1,880,063	1	1,707,544	1
Financial services	4,456,635	2	210,086	1
Others	1,633,863	1	2,142,555	1
Discounted bills	16,761,362	6	21,610,553	9
Subtotal	195,962,832	71	179,040,423	74
Personal loans and advances				
Mortgages	60,672,004	22	44,627,089	18
Revolving loans for private business	8,689,625	3	10,316,157	4
Others	12,046,187	4	9,450,523	4
Subtotal	81,407,816	29	64,393,769	26
Total loans and advances to customers, before impairment allowance	277,370,648	100	243,434,192	100

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.5 Loans and advances to customers (Continued)

(b) Analysis of loans and advances to customers by collateral type

The contractual amounts of loans and advances to customers are analyzed by security type:

	As at 31 December	
	2016	2015
Unsecured	33,628,711	16,697,788
Guaranteed	70,179,467	67,944,273
Collateralized	138,688,332	128,914,339
Pledged	34,874,138	29,877,792
Total loans and advances to customers	277,370,648	243,434,192

(c) Analysis of loans and advances to customers by geographical areas

	As at 31 December					
	2016			2015		
	Total	%	NPL ratio	Total	%	NPL ratio
Anhui Province	254,095,371	91.61	1.01%	222,171,550	91.27	0.97%
Pan Yangtze River Delta	23,275,277	8.39	1.77%	21,262,642	8.73	1.11%
Total loans and advances to customers	277,370,648	100.00	1.07%	243,434,192	100.00	0.98%

(d) Analysis of loans and advances to customers by overdue and impaired status

	2016		2015	
	Corporate loans	Personal loans and advances	Corporate loans	Personal loans and advances
Neither overdue nor impaired ^(e)	191,260,649	80,045,537	174,946,447	63,451,201
Overdue but not impaired ^(f)	2,431,893	665,263	2,230,115	408,691
Impaired ^(g)	2,270,290	697,016	1,863,861	533,877
Total	195,962,832	81,407,816	179,040,423	64,393,769
Less: collectively assessed impairment allowance	(4,861,318)	(2,021,175)	(3,967,444)	(1,347,287)
Individually assessed impairment allowance	(1,152,014)	–	(691,358)	–
Total impairment allowance	(6,013,332)	(2,021,175)	(4,658,802)	(1,347,287)
Net	189,949,500	79,386,641	174,381,621	63,046,482

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.5 Loans and advances to customers (Continued)

(e) *Loans and advances neither overdue nor impaired*

The credit quality of the portfolio of loans and advances that were neither past due nor impaired of single corporate customer can be assessed by reference to the five-category system adopted by the Group.

As at 31 December 2016

Neither overdue nor impaired	Five-category of loan classification		
	Pass	Special- mention	Total
Corporate loans			
– Commercial loans	170,813,768	3,685,519	174,499,287
– Discounted bills	16,761,362	–	16,761,362
Subtotal	187,575,130	3,685,519	191,260,649
Personal loans and advances	80,037,796	7,741	80,045,537
Total	267,612,926	3,693,260	271,306,186

As at 31 December 2015

Neither overdue nor impaired	Five-category of loan classification		
	Pass	Special- mention	Total
Corporate loans			
– Commercial loans	148,532,578	4,803,316	153,335,894
– Discounted bills	21,610,553	–	21,610,553
Subtotal	170,143,131	4,803,316	174,946,447
Personal loans and advances	62,951,756	499,445	63,451,201
Total	233,094,887	5,302,761	238,397,648

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.5 Loans and advances to customers (Continued)

(f) Loans and advances overdue but not impaired

Analysis of assets overdue but not impaired by overdue days:

As at 31 December 2016

	Up to 30 days	30-60 days	60-90 days	over 90 days	Total
Corporate loans	689,299	223,278	142,755	1,376,561	2,431,893
Personal loans and advances	263,987	95,891	118,280	187,105	665,263
Total	953,286	319,169	261,035	1,563,666	3,097,156

As at 31 December 2015

	Up to 30 days	30-60 days	60-90 days	over 90 days	Total
Corporate loans	45,324	1,000	–	2,183,791	2,230,115
Personal loans and advances	64,653	72,378	36,845	234,815	408,691
Total	109,977	73,378	36,845	2,418,606	2,638,806

The Group is of the view that these past due loans can be recovered from the operation income of borrowers, the payment from guarantors or disposal of collateral, are therefore not impaired.

As at 31 December 2016, the fair value of collateral for corporate loans that were past due but not impaired amounted to RMB3,898,193 thousands (31 December 2015: RMB1,828,082 thousands). The fair value of collateral for retail loans that were past due but not impaired amounted to RMB665,447 thousands (31 December 2015: RMB511,500 thousands).

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.5 Loans and advances to customers (Continued)

(g) Impaired loans and advances

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

	As at 31 December	
	2016	2015
Corporate loans and advances	2,270,290	1,863,861
Personal loans and advances	697,016	533,877
Total	2,967,306	2,397,738
Fair value of collateral		
Corporate loans and advances	2,029,028	1,615,322
Personal loans and advances	629,750	531,667
Total	2,658,778	2,146,989

The fair value of collateral is estimated based on the latest external valuations available, considering the realization experience of the current collateral and the market conditions.

(h) Loans and advances renegotiated

Renegotiated loans represent the loans whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms. At 31 December 2016, carrying value of the renegotiated loans held by the Group amounted to RMB831.00 million (31 December 2015: RMB438 million).

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.5 Loans and advances to customers (Continued)

(i) Overdue loans and advances by overdue days and collateral types

	As at 31 December 2016				Total
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	
Unsecured	145,177	86,216	33,881	–	265,274
Guaranteed	396,935	923,062	262,461	15	1,582,473
Collateralized	1,066,672	2,102,855	951,574	25,812	4,146,913
Pledged	399	69,325	78	–	69,802
	1,609,183	3,181,458	1,247,994	25,827	6,064,462

	As at 31 December 2015				Total
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	
Unsecured	76	205,137	25,794	190	231,197
Guaranteed	46,091	1,291,592	171,779	84	1,509,546
Collateralized	265,579	2,231,486	520,534	12,916	3,030,515
Pledged	2,560	90,295	79,118	–	171,973
	314,306	3,818,510	797,225	13,190	4,943,231

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.6 Debt securities

The table below presents an analysis of debt securities by external credit rating companies:

As at 31 December 2016	Held-for- Trading (a)	Available- for-sale (b)	Held-to- maturity (a)	Debt instruments classified as loans and receivables (c)	Total
RMB securities					
AAA	189,478	1,132,365	4,894,979	–	6,216,822
AA- to AA+	347,560	3,132,253	2,903,530	–	6,383,343
A- to A+	749,676	557,034	–	–	1,306,710
Unrated	4,455,403	116,445,746	44,552,942	161,282,879	326,736,970
Total	5,742,117	121,267,398	52,351,451	161,282,879	340,643,845
Less: Allowance for impairment losses	–	(892,508)	–	(1,611,771)	(2,504,279)
Net balance	5,742,117	120,374,890	52,351,451	159,671,108	338,139,566

As at 31 December 2015	Held-for- Trading (a)	Available- for-sale (b)	Held-to- maturity (a)	Debt instruments classified as loans and receivables (c)	Total
RMB securities					
AAA	–	686,918	4,281,734	–	4,968,652
AA- to AA+	337,406	3,870,037	2,605,335	–	6,812,778
A- to A+	–	160,867	–	–	160,867
Unrated	2,392,714	92,006,582	35,370,175	89,766,178	219,535,649
Total	2,730,120	96,724,404	42,257,244	89,766,178	231,477,946
Less: Allowance for impairment losses	–	(462,256)	–	(631,926)	(1,094,182)
Net balance	2,730,120	96,262,148	42,257,244	89,134,252	230,383,764

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.6 Debt securities (Continued)

- (a) The unrated debt securities (held-for-trading and held-to-maturity) held by the Group mainly represent investments and trading securities issued by Ministry of Finance of the PRC ("MOF"), the PBOC and policy banks which are creditworthy issuers in the market, but are not rated by independent rating agencies.
- (b) The unrated available-for-sale held by the Group mainly represent investments and trading securities issued by MOF, the PBOC, policy banks, other well qualified issuers, and asset management schemes by securities firms or trust companies and other investment funds raised from issuing the principal-guaranteed wealth management products. The principle and income of asset management schemes and other investment funds are mainly guaranteed by financial institutions or third party companies, or secured by collateral. The Bank sets credit risk limit to the counter party banks and third party companies to mitigate the risk associated therewith.
- (c) Debt instruments classified as loans and receivables mainly include the principal-guaranteed wealth management products issued by other banks and other fixed-income financial instruments.

49.1.7 Foreclosed collateral

	As at 31 December	
	2016	2015
Property and land use rights	147,072	82,773
Others	2,600	2,600
Total	149,672	85,373
Less: Allowance for impairment losses (Note 28)	(38)	(38)
Net balance	149,634	85,335

Foreclosed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Foreclosed property cannot be used for operating activities. Foreclosed property is classified as other assets in the balance sheet.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.8 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

As at 31 December 2016	PRC			Total
	mainland	Hong Kong	Others	
Financial assets				
Balances with the central bank	86,706,368	–	–	86,706,368
Deposits with banks and other financial institutions	4,483,089	6,219,424	258,085	10,960,598
Placements with banks and other financial institutions	19,319,720	–	–	19,319,720
Financial assets at fair value through profit or loss	5,742,117	–	–	5,742,117
Derivative financial assets	385,977	–	–	385,977
Financial assets held under resale agreements	516,183	–	–	516,183
Loans and advances to customers	269,336,141	–	–	269,336,141
Financial investments				
– available-for-sale	120,384,390	–	–	120,384,390
Financial investments				
– held-to-maturity	52,351,451	–	–	52,351,451
Financial investments				
– debt instruments classified as loans and receivables	159,671,108	–	–	159,671,108
Finance lease receivables	18,199,109	–	–	18,199,109
Other financial assets	4,478,216	–	–	4,478,216
	741,573,869	6,219,424	258,085	748,051,378
Off-balance sheet assets				
Bank acceptance	39,097,490	–	–	39,097,490
Letters of credit	3,693,397	–	–	3,693,397
Letters of guarantee	9,634,980	–	–	9,634,980
Loan commitments	1,694,421	–	–	1,694,421
Unused credit card limits	8,823,994	–	–	8,823,994
	62,944,282	–	–	62,944,282

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

49.1.8 Concentration of risks of financial assets with credit risk exposure (Continued)

Geographical sectors (Continued)

As at 31 December 2015	PRC mainland	Hong Kong	Others	Total
Financial assets				
Balances with the central bank	77,234,805	–	–	77,234,805
Deposits with banks and other financial institutions	10,005,848	90,091	187,310	10,283,249
Placements with banks and other financial institutions	20,990,412	–	–	20,990,412
Financial assets at fair value through profit or loss	2,730,120	–	–	2,730,120
Derivative financial assets	3,789	–	–	3,789
Financial assets held under resale agreements	42,919,944	–	–	42,919,944
Loans and advances to customers	237,428,103	–	–	237,428,103
Financial investments				
– available-for-sale	96,262,148	–	–	96,262,148
Financial investments				
– held-to-maturity	42,257,244	–	–	42,257,244
Financial investments				
– debt instruments classified as loans and receivables	89,134,252	–	–	89,134,252
Finance lease receivables	7,502,268	–	–	7,502,268
Other financial assets	4,216,634	–	–	4,216,634
	630,685,567	90,091	187,310	630,962,968
Off-balance sheet assets				
Bank acceptance	45,275,957	–	–	45,275,957
Letters of credit	1,833,356	–	–	1,833,356
Letters of guarantee	4,249,333	–	–	4,249,333
Loan commitments	8,513,436	–	–	8,513,436
Unused credit card limits	6,293,828	–	–	6,293,828
	66,165,910	–	–	66,165,910

The group's counterparties are mainly concentrated in mainland.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk

49.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from interest rates, foreign exchange rates, stocks, commodities and their implied volatility.

The Groups' market risk mainly includes trading risks arising from trading portfolio and interest rate and foreign exchange rate risks for non-trading portfolio resulted from changes in interest rates, foreign exchange rates and term structures.

The market risks arising from trading and non-trading activities are monitored by the Bank's Risk Management Department. Market risks arising from non-trading activities at the Bank level are monitored and controlled by Financial Planning Department while market risks resulting from trading activities at Bank level and non-trading activities of Financial Market Department are monitored and controlled by Financial Market Department. The Group also establishes daily, monthly and quarterly reporting mechanism in relation to market risk in which Financial Planning Department and Financial Market Department monitor and analyse market risk changes and quota execution before reporting to Risk Management Department and management on a regular basis.

49.2.2 Market risk measurement techniques

The Group mainly measures and controls market risk by conducting sensitivity analysis, foreign exchange exposure analysis, gap analysis, duration analysis, stress testing and the VaR(value at risk). The Group establishes strict authorization and exposure limits based on its overall ability to afford market risk, the types of products and the Group's business strategy. The Group sets different exposure limits and takes different quantitative measurements to manage different types of market risk of trading book and banking book. The Group also improves its funding risk management system, adjusts the related risk parameter and refines the risk measurement model in accordance with regulatory requirements.

49.2.3 Interest rate risk

The interest rate risk refers to the risk the adverse fluctuation of which has negative impact on the Group's financial performance. The Group's interest rate risk mainly arises from the mismatches between repricing dates of both on- and off-balance sheet assets and liabilities. Mismatches between repricing dates or contractual maturities may lead to the impact resulting from the fluctuation of the current interest rate on the net interest income. The Group is primarily exposed to interest rate risk through its lending, deposits and funding activities.

The Group performs business in PRC mainland in accordance with interest rate system set by the PBOC. According to previous experience, the PBOC will adjust benchmark rates for interest bearing loans and deposits in the same direction but not in parallel.

The PBOC established RMB benchmark interest rates whereby financial institutions are in a position to price their loans and deposits based on commercial and market factors. Meanwhile, the discount rate for RMB bills is market-oriented as well.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.3 Interest rate risk (Continued)

The table below summarizes the Group's exposure to interest rate risks. It includes the Group's on-balance sheet assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

As at 31 December 2016	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the central bank	87,776,866	-	-	-	-	282,494	88,059,360
Deposits with banks and other financial institutions	10,257,598	569,000	134,000	-	-	-	10,960,598
Placements with banks and other financial institutions	2,463,126	6,736,112	10,120,482	-	-	-	19,319,720
Financial assets at fair value through profit or loss	389,343	854,816	2,497,882	1,439,612	560,464	-	5,742,117
Derivatives financial assets	-	-	-	-	-	385,977	385,977
Financial assets held under resale agreements	516,183	-	-	-	-	-	516,183
Loans and advances to customers	79,171,892	21,286,017	104,798,400	52,333,559	11,746,273	-	269,336,141
Financial investments							
– available-for-sale	9,254,338	31,531,954	41,959,601	31,990,284	5,638,713	9,500	120,384,390
– held-to-maturity	709,770	849,857	3,607,946	26,162,922	21,020,956	-	52,351,451
– debt instruments classified as loans and receivables	6,994,974	16,281,907	26,379,251	104,547,715	5,467,261	-	159,671,108
Finance lease receivables	295,295	804,655	3,579,842	13,389,889	129,428	-	18,199,109
Other financial assets	-	-	-	-	-	4,478,216	4,478,216
Total assets	197,829,385	78,914,318	193,077,404	229,863,981	44,563,095	5,156,187	749,404,370
Liabilities							
Borrowings from central bank	-	-	(5,000)	-	-	-	(5,000)
Deposits from banks and other financial institutions	(31,312,433)	(21,396,493)	(20,458,287)	(10,049,089)	-	-	(83,216,302)
Placements from banks and other financial institutions	(2,605,865)	(4,587,480)	(8,158,740)	-	-	-	(15,352,085)
Derivatives financial liabilities	-	-	-	-	-	(4,643)	(4,643)
Financial assets sold under repurchase agreements	(29,062,211)	(690,767)	(2,866,264)	-	-	-	(32,619,242)
Customer deposits	(276,278,855)	(39,899,826)	(76,039,177)	(68,775,311)	(1,021,240)	-	(462,014,409)
Debt securities issued	(13,530,000)	(7,120,000)	(37,270,000)	(21,671,198)	(11,914,052)	-	(91,505,250)
Other financial liabilities	-	-	-	-	-	(12,573,802)	(12,573,802)
Total liabilities	(352,789,364)	(73,694,566)	(144,797,468)	(100,495,598)	(12,935,292)	(12,578,445)	(697,290,733)
Total interest rate sensitivity gap	(154,959,979)	5,219,752	48,279,936	129,368,383	31,627,803	(7,422,258)	52,113,637

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(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.3 Interest rate risk (Continued)

As at 31 December 2015	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the central bank	77,234,805	-	-	-	-	1,179,229	78,414,034
Deposits with banks and other financial institutions	4,389,949	3,506,300	2,387,000	-	-	-	10,283,249
Placements with banks and other financial institutions	5,484,051	3,303,284	11,151,673	979,167	-	72,237	20,990,412
Financial assets at fair value through profit or loss	89,326	320,013	493,116	1,433,785	393,880	-	2,730,120
Derivatives financial assets	-	-	-	-	-	3,789	3,789
Financial assets held under resale agreements	32,703,664	9,820,362	395,918	-	-	-	42,919,944
Loans and advances to customers	61,801,631	18,360,187	95,445,872	52,303,116	9,517,297	-	237,428,103
Financial investments							
– available-for-sale	7,299,909	11,199,705	36,681,480	37,180,234	3,900,820	9,500	96,271,648
– held-to-maturity	575,647	585,622	3,795,800	19,756,301	17,543,874	-	42,257,244
– debt instruments classified as loans and receivables	2,417,728	10,746,603	29,199,171	45,190,788	1,579,962	-	89,134,252
Finance lease receivables	42,540	276,591	1,249,280	5,877,367	56,490	-	7,502,268
Other financial assets	-	-	-	-	-	4,216,634	4,216,634
Total assets	192,039,250	58,118,667	180,799,310	162,720,758	32,992,323	5,481,389	632,151,697
Liabilities							
Deposits from banks and other financial institutions	(16,390,858)	(24,869,564)	(40,725,046)	(7,285,677)	(15,041)	-	(89,286,186)
Placements from banks and other financial institutions	(3,071,163)	-	(4,840,000)	-	-	-	(7,911,163)
Derivatives financial liabilities	-	-	-	-	-	(19,997)	(19,997)
Financial assets sold under repurchase agreements	(39,448,698)	(4,791,531)	(1,191,538)	-	-	-	(45,431,767)
Customer deposits	(204,565,079)	(38,138,098)	(74,524,587)	(40,336,197)	(1,660,593)	-	(359,224,554)
Debt securities issued	(3,194,183)	(12,634,853)	(39,976,654)	(11,642,279)	(11,977,731)	-	(79,425,700)
Other financial liabilities	-	-	-	-	-	(9,234,748)	(9,234,748)
Total liabilities	(266,669,981)	(80,434,046)	(161,257,825)	(59,264,153)	(13,653,365)	(9,254,745)	(590,534,115)
Total interest rate sensitivity gap	(74,630,731)	(22,315,379)	19,541,485	103,456,605	19,338,958	(3,773,356)	41,617,582

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.3 Interest rate risk (Continued)

The Group mainly narrows its interest rate sensitivity gap between assets and liabilities through shorter durations for investments and resetting loan price.

The currency for the Group's majority of interest-bearing assets and liabilities is RMB. The potential impact on net interest income as at the balance sheet dates stated below with 100 bps changes along the yield curve is as follows:

	Estimated changes in net interest income	
	As at 31 December	
	2016	2015
100 bps up along the yield curve	989,393	833,665
100 bps down along the yield curve	(989,393)	(833,665)

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as available-for-sale financial assets held, whose fair value changes are recorded as an element of other comprehensive income. The potential impact is as follows:

	As at 31 December	
	2016	2015
100 bps up	(977,187)	(539,062)
100 bps down	1,030,730	565,092

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(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.3 Interest rate risk (Continued)

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index:

- The fluctuation rates of different interest-bearing assets and liabilities are the same;
- Demand deposits will not be re-priced;
- All assets and liabilities are re-priced in the middle of relevant periods;
- Analysis is based on static gap on balance sheet date, regardless of subsequent changes;
- No consideration of impact on customers' behaviour resulting from interest rate changes;
- No consideration of impact on market price resulting from interest rate changes;
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

49.2.4 Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The major principle for control over currency risk of the Group is to match assets and liabilities in different currencies and to keep currency risk within limits. Based on the guidelines provided by Risk Management Committee, relevant laws and regulations as well as evaluation on the current market, the Group sets its risk limits and minimize the possibility of mismatch through more reasonable allocation of foreign currency source and deployment. Authorization management of foreign currency exposure is categorized by business type and traders' limits of authority.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.4 Currency risk (Continued)

The table below summarizes the Group's exposure to foreign currency exchange rate risk at balance sheet date. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by the original currency:

	RMB	USD	EUR	Others	Total
As at 31 December 2016					
Assets					
Cash and balances with the central bank	87,776,265	281,077	63	1,955	88,059,360
Deposits with banks and other financial institutions	4,296,978	6,539,190	49,016	75,414	10,960,598
Placements with banks and other financial institutions	17,363,486	1,956,234	–	–	19,319,720
Financial assets at fair value through profit or loss	5,742,117	–	–	–	5,742,117
Derivative financial assets	385,977	–	–	–	385,977
Financial assets held under resale agreements	516,183	–	–	–	516,183
Loans and advances to customers	267,796,209	1,493,060	42,484	4,388	269,336,141
Financial Investments					
– available-for-sale	120,384,390	–	–	–	120,384,390
– held-to-maturity	52,351,451	–	–	–	52,351,451
– debt instruments classified as loans and receivables	159,671,108	–	–	–	159,671,108
Finance lease receivables	18,199,109	–	–	–	18,199,109
Other financial assets	4,472,149	5,938	129	–	4,478,216
Total assets	738,955,422	10,275,499	91,692	81,757	749,404,370
Liabilities					
Borrowings from central bank	(5,000)	–	–	–	(5,000)
Deposits from banks and other financial institutions	(76,693,201)	(6,523,101)	–	–	(83,216,302)
Placements from banks and other financial institutions	(13,930,000)	(1,422,085)	–	–	(15,352,085)
Derivative financial liabilities	(4,643)	–	–	–	(4,643)
Financial assets sold under repurchase agreements	(32,619,242)	–	–	–	(32,619,242)
Customer deposits	(457,954,269)	(4,006,522)	(15,259)	(38,359)	(462,014,409)
Debt securities issued	(91,505,250)	–	–	–	(91,505,250)
Other financial liabilities	(12,506,730)	(67,057)	(1)	(14)	(12,573,802)
Total liabilities	(685,218,335)	(12,018,765)	(15,260)	(38,373)	(697,290,733)
Net on-balance sheet financial position	53,737,087	(1,743,266)	76,432	43,384	52,113,637
Financial guarantees and credit commitments	53,766,050	8,755,353	330,184	92,695	62,944,282

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
As at 31 December 2015					
Assets					
Cash and balances with the central bank	78,266,183	145,385	162	2,304	78,414,034
Deposits with banks and other financial institutions	9,826,702	248,227	95,337	112,983	10,283,249
Placements with banks and other financial institutions	19,711,172	1,279,240	–	–	20,990,412
Financial assets at fair value through profit or loss	2,730,120	–	–	–	2,730,120
Derivative financial assets	3,789	–	–	–	3,789
Financial assets held under resale agreements	42,919,944	–	–	–	42,919,944
Loans and advances to customers	236,345,202	1,082,901	–	–	237,428,103
Financial Investments					
– available-for-sale	96,271,648	–	–	–	96,271,648
– held-to-maturity	42,257,244	–	–	–	42,257,244
– debt instruments classified as loans and receivables	89,134,252	–	–	–	89,134,252
Finance lease receivables	7,502,268	–	–	–	7,502,268
Other financial assets	4,215,959	675	–	–	4,216,634
Total assets	629,184,483	2,756,428	95,499	115,287	632,151,697
Liabilities					
Deposits from banks and other financial institutions	(88,899,818)	(386,368)	–	–	(89,286,186)
Placements from banks and other financial institutions	(7,756,966)	(63,962)	(90,235)	–	(7,911,163)
Derivative financial liabilities	(19,997)	–	–	–	(19,997)
Financial assets sold under repurchase agreements	(45,431,767)	–	–	–	(45,431,767)
Customer deposits	(356,294,418)	(2,905,565)	(7,428)	(17,143)	(359,224,554)
Debt securities issued	(79,425,700)	–	–	–	(79,425,700)
Other financial liabilities	(9,232,104)	(2,609)	(1)	(34)	(9,234,748)
Total liabilities	(587,060,770)	(3,358,504)	(97,664)	(17,177)	(590,534,115)
Net on-balance sheet financial position					
	42,123,713	(602,076)	(2,165)	98,110	41,617,582
Financial guarantees and credit commitments	63,487,358	2,658,815	8,950	10,787	66,165,910

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

49.2.4 Currency risk (Continued)

The Group's foreign currency exposure is not material. The major foreign currency exposure is with USD and EUR. The potential impact on net profits resulted from foreign currency translation gain or loss with 1% fluctuation of foreign currency against RMB is as follows:

	Estimated change in net profit/(loss)	
	As at 31 December	
	2016	2015
1% of appreciation of USD against RMB	(12,176)	(3,796)
1% of depreciation of USD against RMB	12,176	3,796

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index, regardless of:

- Analysis is based on static gap on balance sheet date, regardless of subsequent changes;
- No consideration of impact on the customers' behaviour resulted from interest rate changes;
- No consideration of impact on market price resulted from interest rate changes;
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

49.3 Liquidity risk

49.3.1 Overview

Keeping a match between the maturity dates of assets and liabilities and maintaining an effective control over mismatch is of great importance to the Group. Due to the uncertainty of terms and types of business, it is difficult for banks to keep a perfect match. Unmatched position may increase revenues but it also exposes the Group to greater risks of losses.

The match between maturity dates of assets and liabilities as well as a bank's ability to replace due liabilities with acceptable costs are all key factors when evaluating its' exposure to liquidity, interest rate and foreign exchange rate risks.

The Group is exposed to daily calls on its available cash resources from overnight deposits, demand accounts, time deposits fall due, debt securities payable, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. According to previous experience, a large portion of matured deposits is not withdrawn on the maturity date. The Group sets limits on the minimum proportion of funds to be made available to cover different levels of unexpected withdrawals.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

49.3.2 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows receivable and payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, and the Group manages the liquidity risk based on the estimation of future cash flows.

As at 31 December 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Borrowings from central bank	-	-	(5,088)	-	-	(5,088)
Deposits from banks and other financial institutions	(31,312,433)	(22,385,065)	(22,405,709)	(11,869,036)	-	(87,972,243)
Placements from banks and other financial institutions	(2,608,439)	(4,612,863)	(8,327,432)	-	-	(15,548,734)
Financial assets sold under repurchase agreements	(29,084,073)	(695,346)	(2,904,875)	-	-	(32,684,294)
Customer deposits	(276,296,244)	(40,048,642)	(77,101,838)	(76,888,458)	(1,226,481)	(471,561,663)
Debt securities issued	(13,530,000)	(7,481,000)	(38,270,500)	(26,244,300)	(14,810,800)	(100,336,600)
Other financial liabilities	(5,479,145)	-	-	-	-	(5,479,145)
Total liabilities (contractual maturity)	(358,310,334)	(75,222,916)	(149,015,442)	(115,001,794)	(16,037,281)	(713,587,767)
Assets						
Cash and balances with the central bank	88,059,360	-	-	-	-	88,059,360
Deposits with banks and other financial institutions	9,950,202	898,266	136,554	-	-	10,985,022
Placements with banks and other financial institutions	2,466,462	6,789,515	10,294,279	-	-	19,550,256
Financial assets at fair value through profit or loss	398,965	887,998	2,645,860	1,722,849	634,167	6,289,839
Financial assets held under resale agreements	519,184	-	-	-	-	519,184
Loans and advances to customers	17,988,316	24,905,003	115,962,242	84,551,899	66,320,216	309,727,676
Financial Investments						
- available-for-sale	9,306,831	31,962,665	43,992,135	35,953,454	6,005,558	127,220,643
- held-to-maturity	824,310	1,169,199	5,063,416	31,692,820	22,700,761	61,450,506
- debt instruments classified as loans and receivables	11,283,871	26,147,954	31,959,909	126,158,042	7,025,600	202,575,376
Finance lease receivables	300,569	818,597	3,642,289	13,622,637	131,667	18,515,759
Other financial assets	781,587	-	-	-	-	781,587
Financial assets held for managing liquidity risk (contractual maturity)	141,879,657	93,579,197	213,696,684	293,701,701	102,817,969	845,675,208
Net liquidity	(216,430,677)	18,356,281	64,681,242	178,699,907	86,780,688	132,087,441

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

49.3.2 Non-derivative financial liabilities and assets held for managing liquidity risk (Continued)

As at 31 December 2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits from banks and other financial institutions	(16,425,456)	(25,041,756)	(41,560,002)	(7,929,872)	(15,041)	(90,972,127)
Placements from banks and other financial institutions	(3,072,855)	-	(4,855,375)	-	-	(7,928,230)
Financial assets sold under repurchase agreements	(39,470,453)	(4,816,294)	(1,200,701)	-	-	(45,487,448)
Customer deposits	(204,986,743)	(38,048,454)	(76,422,860)	(44,562,214)	(1,818,991)	(365,839,262)
Debt securities issued	(3,211,777)	(12,843,774)	(41,942,100)	(15,149,402)	(15,448,000)	(88,595,053)
Other financial liabilities	(3,245,822)	-	-	-	-	(3,245,822)
Total liabilities (contractual maturity)	(270,413,106)	(80,750,278)	(165,981,038)	(67,641,488)	(17,282,032)	(602,067,942)
Assets						
Cash and balances with the central bank	78,414,034	-	-	-	-	78,414,034
Deposits to banks and other financial institutions	4,395,659	3,541,969	2,452,166	-	-	10,389,794
Placements with banks and other financial institutions	5,567,914	3,354,132	11,377,977	1,038,719	-	21,338,742
Financial assets at fair value through profit or loss	103,257	341,307	556,864	1,595,827	408,920	3,006,175
Financial assets held under resale agreements	32,729,325	9,860,168	399,700	-	-	42,989,193
Loans and advances to customers	16,346,417	22,096,254	106,333,424	80,651,053	52,155,606	277,582,754
Financial Investments						
- available-for-sale	7,268,264	11,705,419	39,610,955	45,131,485	4,121,841	107,837,964
- held-to-maturity	689,092	791,526	5,111,442	24,602,435	19,256,430	50,450,925
- debt instruments classified as loans and receivables	2,626,159	11,343,723	30,877,238	59,213,801	-	104,060,921
Finance lease receivables	92,525	350,761	1,550,506	6,593,857	59,198	8,646,847
Other financial assets	738,997	-	-	-	-	738,997
Financial assets held for managing liquidity risk (contractual maturity)	148,971,643	63,385,259	198,270,272	218,827,177	76,001,995	705,456,346
Net liquidity	(121,441,463)	(17,365,019)	32,289,234	151,185,689	58,719,963	103,388,404

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(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

49.3.3 Derivative financial instruments cash flow

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include foreign exchange forward contracts. The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet of 2016 and 2015 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2016	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Foreign exchange derivatives						
– Outflow	(27,495)	(3,485,733)	(4,554,428)	–	–	(8,067,656)
– Inflow	27,622	3,697,189	4,713,058	–	–	8,437,869
	127	211,456	158,630	–	–	370,213

As at 31 December 2015	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Foreign exchange derivatives						
– Outflow	(95,582)	(492,505)	(820,999)	–	–	(1,409,086)
– Inflow	95,797	492,564	835,978	–	–	1,424,339
	215	59	14,979	–	–	15,253

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

49.3.4 Maturity analysis

The table below analyses the Group's net assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

As at 31 December 2016	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	88,059,360	-	-	-	-	-	-	-	88,059,360
Deposits to banks and other financial institutions	7,872,098	2,385,500	569,000	134,000	-	-	-	-	10,960,598
Placements with banks and other financial institutions	-	2,463,126	6,736,112	10,120,482	-	-	-	-	19,319,720
Financial assets at fair value through profit or loss	-	389,343	854,816	2,497,883	1,439,611	560,464	-	-	5,742,117
Derivative financial assets	-	685	201,856	152,248	31,188	-	-	-	385,977
Financial assets held under resale agreements	-	516,183	-	-	-	-	-	-	516,183
Loans and advances to customers	-	17,136,435	21,329,001	104,787,634	56,349,968	67,305,575	2,427,528	-	269,336,141
Financial Investments									
- available-for-sale	-	9,254,338	31,531,954	41,959,601	31,990,284	5,638,713	-	9,500	120,384,390
- held-to-maturity	-	709,770	849,857	3,607,946	26,162,921	21,020,957	-	-	52,351,451
- debt instruments classified as loans and receivables	-	6,994,974	16,281,907	26,349,251	104,547,715	5,467,261	30,000	-	159,671,108
Finance lease receivables	-	295,295	804,655	3,579,842	13,389,889	129,428	-	-	18,199,109
Other financial assets	298,408	586,261	865,480	1,738,272	895,796	-	93,999	-	4,478,216
Total assets	96,229,866	40,731,910	80,024,638	194,927,159	234,807,372	100,122,398	2,551,527	9,500	749,404,370
Borrowing from central banks	-	-	-	(5,000)	-	-	-	-	(5,000)
Deposits from banks and other financial institutions	(21,322,095)	(9,990,339)	(21,396,492)	(20,458,287)	(10,049,089)	-	-	-	(83,216,302)
Placements from banks and other financial institutions	-	(2,605,865)	(4,587,480)	(8,158,740)	-	-	-	-	(15,352,085)
Derivative financial liabilities	-	(569)	(1,260)	(977)	(1,837)	-	-	-	(4,643)
Financial assets sold under repurchase agreements	-	(29,062,211)	(690,767)	(2,866,264)	-	-	-	-	(32,619,242)
Customer deposits	(250,548,858)	(25,729,997)	(39,899,826)	(76,039,177)	(68,775,311)	(1,021,240)	-	-	(462,014,409)
Debt securities issued	-	(13,530,000)	(7,120,000)	(37,270,000)	(21,605,880)	(11,979,370)	-	-	(91,505,250)
Other financial liabilities	(5,853,727)	(418,560)	(1,408,000)	(2,076,515)	(2,479,048)	(337,952)	-	-	(12,573,802)
Total liabilities	(277,724,680)	(81,337,541)	(75,103,825)	(146,874,960)	(102,911,165)	(13,338,562)	-	-	(697,290,733)
Net liquidity gap	(181,494,814)	(40,605,631)	4,920,813	48,052,199	131,896,207	86,783,836	2,551,527	9,500	52,113,637

Notes to the Consolidated Financial Statements

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

49.3.4 Maturity analysis (Continued)

As at 31 December 2015	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	78,414,034	-	-	-	-	-	-	-	78,414,034
Deposits to banks and other financial institutions	1,572,933	2,817,016	3,506,300	2,387,000	-	-	-	-	10,283,249
Placements with banks and other financial institutions	72,237	5,484,051	3,303,284	11,151,673	979,167	-	-	-	20,990,412
Financial assets at fair value through profit or loss	-	-	300,054	553,355	1,482,831	393,880	-	-	2,730,120
Derivative financial assets	-	687	1,467	1,635	-	-	-	-	3,789
Financial assets held under resale agreements	-	32,703,664	9,820,362	395,918	-	-	-	-	42,919,944
Loans and advances to customers	-	15,423,366	18,474,089	95,921,880	55,779,230	47,841,541	3,987,997	-	237,428,103
Financial Investments - available-for-sale	-	8,022,210	14,844,377	46,735,687	26,659,874	-	-	9,500	96,271,648
- held-to-maturity	-	-	370,047	2,978,469	21,364,854	17,543,874	-	-	42,257,244
- debt instruments classified as loans and receivables	-	2,417,728	10,746,603	29,199,171	45,190,788	1,579,962	-	-	89,134,252
Finance lease receivables	-	42,540	276,591	1,249,280	5,877,367	56,490	-	-	7,502,268
Other financial assets	179,632	295,237	1,943,797	1,057,035	592,042	3,691	145,200	-	4,216,634
Total assets	80,238,836	67,206,499	63,586,971	191,631,103	157,926,153	67,419,438	4,133,197	9,500	632,151,697
Deposits from banks and other financial institutions	(1,051,967)	(15,338,892)	(24,869,563)	(40,725,046)	(7,285,677)	(15,041)	-	-	(89,286,186)
Placements from banks and other financial institutions	-	(3,071,163)	-	(4,840,000)	-	-	-	-	(7,911,163)
Derivative financial liabilities	-	(531)	(1,401)	(8,475)	(9,590)	-	-	-	(19,997)
Financial assets sold under repurchase agreements	-	(39,448,698)	(4,791,531)	(1,191,538)	-	-	-	-	(45,431,767)
Customer deposits	(182,723,865)	(22,241,362)	(37,924,614)	(75,346,137)	(39,487,659)	(1,500,917)	-	-	(359,224,554)
Debt securities issued	-	(3,194,183)	(12,634,853)	(39,976,654)	(11,642,279)	(11,977,731)	-	-	(79,425,700)
Other financial liabilities	(3,338,649)	(581,740)	(1,246,562)	(2,701,508)	(1,316,905)	(49,384)	-	-	(9,234,748)
Total liabilities	(187,114,481)	(83,876,569)	(81,468,524)	(164,789,358)	(59,742,110)	(13,543,073)	-	-	(590,534,115)
Net liquidity gap	(106,875,645)	(16,670,070)	(17,881,553)	26,841,745	98,184,043	53,876,365	4,133,197	9,500	41,617,582

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(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

49.3.5 Off-balance sheet items

The Group provides guarantees and letters of credit to customers based on their credit ratings and amount of cash collaterals. Usually, customers will not withdraw the amount committed by the Group in the guarantees or letters of credit in full, therefore, funds required for guarantees and letters of credit are not so much as required for other commitments of the Group. Meanwhile, the Group may be discharged of its obligations due to overdue or termination of the commitments. As a result, the contractual amount for credit commitment cannot represent the actual funds required.

As at 31 December 2016	Within 1 year	1-5 years	Over 5 years	Total
Bank acceptance	39,095,890	1600	–	39,097,490
Letters of credit	3,693,397	–	–	3,693,397
Letters of guarantee	7,489,486	1,671,705	473,789	9,634,980
Loan commitments	1,664,421	30,000	–	1,694,421
Unused credit card limits	1,439,077	6,932,247	452,670	8,823,994
Total	53,382,271	8,635,552	926,459	62,944,282

As at 31 December 2015	Within 1 year	1-5 years	Over 5 years	Total
Bank acceptance	45,275,957	–	–	45,275,957
Letters of credit	1,831,541	1,815	–	1,833,356
Letters of guarantee	1,823,498	2,423,485	2,350	4,249,333
Loan commitments	8,378,436	135,000	–	8,513,436
Unused credit card limits	1,168,196	4,831,950	293,682	6,293,828
Total	58,477,628	7,392,250	296,032	66,165,910

49.4 Fair value of financial assets and liabilities

(a) Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instruments.
- Level 2 – Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts and debt securities for which quotations like yield curve or counterparty credit risk are available from Thomson Reuters, Bloomberg and China Bond.

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(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.4 Fair value of financial assets and liabilities (Continued)

(a) Fair value hierarchy (Continued)

- Level 3 – Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

(b) Financial instruments not measured at fair value

Fair value estimates are made in accordance with relevant market information and information related to various financial instruments at a particular point in time. The fair value of all kinds of financial instruments is based on the following methods and assumptions:

(i) *Balances with central bank, deposits and placements with banks, financial assets held under resale agreements, deposits and placements from banks, financial assets sold under repurchase agreements, other assets and other liabilities*

Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, their carrying value is approximate to the fair value.

(ii) *Loans and advances to customers*

Since most loans and advances to customers are repriced at least annually according to market interest rate, their carrying value is approximate to the fair value.

(iii) *Customer deposits*

The fair value of a checking account, a savings account and a short-term money market deposit shall be the amount currently payable to customers. The fair value of a time deposit is calculated based on the discounted cash flow method, and the discount rate is the current rate of a time deposit of which the term is similar to the remaining term of the time deposit being valued. At the end of the reporting period, the carrying value of deposits from customers is approximate to the fair value.

(iv) *Finance lease receivables*

The balance of finance lease receivables is calculated based on effective interest rate method. Since the actual interest rate of a financial leasing is linked and timely adjusted to the interest rates that PBOC stipulates, the carrying value is approximate to fair value.

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(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.4 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value (Continued)

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the Group's balance sheet, including financial investments – held-to-maturity, financial investments – loans and receivables and debt securities in issued.

	As at 31 December 2016				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– Held-to-maturity	52,351,451	–	52,695,493	–	52,695,493
Financial investments					
– Debt instruments classified as loans and receivables	159,671,108	–	90,349	159,565,483	159,655,832
Financial Liabilities					
Debt securities issued	(91,505,250)	–	(90,444,884)	–	(90,444,884)

	As at 31 December 2015				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial Investments					
– Held-to-maturity	42,257,244	–	43,456,228	–	43,456,228
Financial Investments					
– Debt instruments classified as loans and receivables	89,134,252	–	111,613	89,014,734	89,126,347
Financial Liabilities					
Debt securities issued	(79,425,700)	–	(79,456,804)	–	(79,456,804)

(i) Debt instruments classified as loans and receivables and held-to-maturity investments

Financial investments held-to-maturity whose fair value is based on quoted market prices are included in level 1. When such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received based on observable yield curves or quoted market prices for products with similar credit, maturity and yield characteristics are used where applicable, the fair value measurement will be included in level 2 or level 3.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.4 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value (Continued)

(ii) Debt securities issued

If the fair value is based on quoted market prices, the fair value measurement will be included in level 1. When the fair value of debt securities issued is determined by valuation techniques and all significant inputs required to fair value are observable, it is included in level 2.

The other financial instruments not measured at fair value in the financial statements are calculated as the present value of the estimated future cash flows based on observable yield curves. Due to their short duration or the floating rate which is mark to market, the difference between carrying value and fair value of these financial assets are not significant.

(c) Financial instruments measured at fair value

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	3,249,676	–	3,249,676
– Certificates of deposit	–	2,492,441	–	2,492,441
Derivative financial assets	–	385,977	–	385,977
Available-for-sale				
– Debt securities	–	32,548,360	–	32,548,360
– Certificates of deposit	–	14,605,375	–	14,605,375
– Equity securities	–	–	9,500	9,500
– Asset management schemes sponsored by securities companies or trust companies	–	–	59,721,155	59,721,155
– wealth management products	–	–	13,500,000	13,500,000
Total assets	–	53,281,829	73,230,655	126,512,484
Derivative financial liabilities	–	(4,643)	–	(4,643)
Total liabilities	–	(4,643)	–	(4,643)

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(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

As at 31 December 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	2,730,120	–	2,730,120
Derivative financial assets	–	3,789	–	3,789
Available-for-sale				
– Debt securities	–	23,920,037	–	23,920,037
– Certificates of deposit	–	229,191	–	229,191
– Equity securities	–	–	9,500	9,500
– Asset management schemes sponsored by securities companies or trust companies	–	–	67,612,920	67,612,920
– wealth management products	–	–	4,500,000	4,500,000
Total assets	–	26,883,137	72,122,420	99,005,557
Derivative financial liabilities	–	(19,997)	–	(19,997)
Total liabilities	–	(19,997)	–	(19,997)

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available.

Financial assets classified into level 2 includes bonds investment, foreign exchange forward contracts, currency swap contracts, and interest rate swap contracts, etc. The fair values of RMB bonds are determined based on the yield curve provided by China Central Depository and Clearing Co., Ltd. The fair values of foreign exchange forward contracts, currency swap contracts, and interest rate swap contracts are calculated by discounted cash flow and Black-Scholes Model, etc. All significant valuation inputs are observable market data.

The nature of the assets classified within Level 3 of the fair value measurement hierarchy is primarily investment products issued by domestic trust companies or other financial institutions, underlying assets of which include credit assets, deposits with financial institutions and debt securities. The significant unobservable inputs related to the credit assets are those around credit risk and liquidity risk. This largely relates to the lack of historical default and liquidity information through one or more economic cycles, which Mainland China has not experienced. Management has made assumptions, based on observed indicators of impairment or significant changes in yield, but the actual value realized from these underlying assets in a current arm's length sale could differ from those disclosed.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

The following table presents the changes in level 3 instruments:

	Available-for-sale
Balance at 1 January 2016	72,122,420
– Additions	61,612,915
– Disposals	(60,504,680)
Balance at 31 December 2016	73,230,655
Total gains for the year included in profit or loss for assets/liabilities held at 31 December 2016	2,770
	Available-for-sale
Balance at 1 January 2015	38,518,665
– Additions	58,089,000
– Disposals	(20,652,753)
The effect of the consolidation of structured entity	(3,832,492)
Balance at 31 December 2015	72,122,420
Total gains for the year included in profit or loss for assets/liabilities held at 31 December 2015	440

49.5 Capital management

The Group takes sufficient measures of capital management to prevent inherent risks associated with Group's business for the purpose of meeting external regulators' requirements and shareholders' expectation on returns. Capital management also aims to stimulate expansion of capital scale and to improve risk management.

The Group prudently sets the objective of capital ratio, taking into account regulatory requirements and the risk situation the Group faces. The Group takes a variety of actions, like limit management to ensure the realization of the objectives and proactively adjust its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes modification of dividend distribution plan, raising new capital and issuance of new bonds.

From 1 January 2013 onward, the Group started to implement "The Trial Measures for Capital Management of Commercial Banks" as promulgated by the CBRC on 7 June 2012.

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.5 Capital management (Continued)

The tables below summarize the capital adequacy ratio of the Group for 2016:

	As at 31 December 2016	As at 31 December 2015
Core Tier 1 capital	46,637,740	41,542,138
Including: Paid-in capital	11,049,819	11,049,819
Capital reserve	6,630,294	7,021,677
Surplus reserve and statutory general reserve	12,744,612	9,966,259
Retained Earnings	15,456,586	13,121,389
Non-controlling interests	756,429	382,994
Regulatory deductions for core Tier 1 capital	(116,938)	(91,448)
Total core Tier 1 capital, net of deductions	46,520,802	41,450,690
Other Tier 1 capital	6,085,614	41,411
Total Tier 1 capital, net of deductions	52,606,416	41,492,101
Tier 2 capital	16,126,976	14,539,229
Including: Tier 2 capital instruments and premium	10,382,615	10,780,640
Surplus loan loss provisions	5,550,134	3,688,754
Non-controlling interests	194,227	69,835
Total capital, net of deductions	68,733,392	56,031,330
Credit risk-weighted assets	496,433,663	397,271,089
Market risk-weighted assets	1,029,655	755,403
Operational risk-weighted assets	31,768,736	24,906,106
Total risk-weighted assets	529,232,054	422,932,598
Capital adequacy ratio	12.99%	13.25%
Tier 1 capital adequacy ratio	9.94%	9.81%
Core Tier 1 capital adequacy ratio	8.79%	9.80%

According to regulatory requirement, the capital adequacy ratio calculation by the Group above is based on the consolidated results after consolidating Jinzhai Huiyin Rural Bank Co., Ltd., Wuwei Huiyin Rural Bank Co., Ltd and Huishang Bank Financial Leasing Co., Ltd..

Notes to the Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

49 FINANCIAL RISK MANAGEMENT (Continued)

49.6 Fiduciary activities

The Group provides custodian and trustee services to third parties. These assets arising thereon are excluded from the financial statements. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the financial statements either.

	As at 31 December	
	2016	2015
Entrusted loans	122,015,997	91,666,204
Off-balance sheet wealth management products	71,448,851	36,725,100

50 SUBSEQUENT EVENTS

At 23 March 2017, the Board of Directors proposed profit appropriations of 2016 as followed:

- (i) An appropriation of RMB674,642 thousands to the statutory surplus reserve;
- (ii) An appropriation of RMB674,642 thousands to the discretionary surplus reserve;
- (iii) An appropriation of RMB1,429,502 thousands to the statutory general reserve;
- (iv) A cash dividend of RMB674,642 million in total and RMB0.061 per share.

As of the date of this report, except for the event above, the group and the Bank have no significant subsequent events.

Appendix I – Unaudited Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

According to Hong Kong Listing Rules and disclosure requirements of the banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 31 December	
	2016	2015
RMB current assets to RMB current liabilities	39.00%	39.15%
Foreign currency current assets to foreign currency current liabilities	174.33%	63.68%

2 CURRENCY CONCENTRATIONS

	USD	EUR	Other	Total
As at 31 December 2016				
Spot assets	10,275,499	91,692	81,757	10,448,948
Spot liabilities	(12,018,765)	(15,260)	(38,373)	(12,072,398)
Forward purchases	8,335,835	–	–	8,335,835
Forward sales	(78,682)	–	–	(78,682)
Net long/(short) position	6,513,887	76,432	43,384	6,633,703
As at 31 December 2015				
Spot assets	2,756,428	95,499	115,287	2,967,214
Spot liabilities	(3,358,504)	(97,664)	(17,177)	(3,473,345)
Forward purchases	1,082,173	–	–	1,082,173
Forward sales	(343,683)	–	(12,950)	(356,633)
Net long/(short) position	136,414	(2,165)	85,160	219,409

Appendix I – Unaudited Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

3 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China, and regards all the claims on third parties outside Mainland China as cross border claims.

International claims include balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held for trading, financial assets designated at fair value through profit or loss, loans and advances to customers, financial assets held under resale agreements, available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is 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.

	Banks and other financial institutions	Non-bank private institutions	Total
As at 31 December 2016			
Asia Pacific	8,646,904	1,539,932	10,186,836
– China mainland	6,129,424	–	6,129,424
Europe	6,178	–	6,178
North and South America	254,724	–	254,724
Subtotal	8,907,806	1,539,932	10,447,738
As at 31 December 2015			
Asia Pacific excluding China mainland	1,710,055	1,082,901	2,792,956
– Hong Kong	90,091	–	90,091
Europe	92,281	–	92,281
North and South America	81,341	–	81,341
Subtotal	1,883,677	1,082,901	2,966,578

Appendix I – Unaudited Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

4 LOANS AND ADVANCES TO CUSTOMERS

4.1 Overdue loans and advances to customers

Total amount of overdue loans and advances to customers:

	As at 31 December	
	2016	2015
Total loans and advances to customers which have been overdue for		
– within 3 months	1,609,183	314,306
– between 3 to 6 months	1,444,741	1,951,769
– between 6 to 12 months	1,736,717	1,866,740
– over 12 months	1,273,821	810,416
Total	6,064,462	4,943,231
Percentage		
– within 3 months	36.53%	6.36%
– between 3 to 6 months	23.82%	39.48%
– between 6 to 12 months	28.65%	37.77%
– over 12 months	21.00%	16.39%
Total	100.00%	100.00%

Total amount of overdue loans and advances to customers and allowance assessment by geographic segment:

	Pan Yangtze		Total
	Anhui Province	River Delta	
As at 31 December 2016			
Overdue loans and advances to customers	5,612,650	451,812	6,064,462
– Individually assessed	(427,742)	(148,350)	(576,092)
– Collectively assessed	(1,001,820)	(156,288)	(1,158,108)
	Anhui Province	Pan Yangtze River Delta	Total
As at 31 December 2015			
Overdue loans and advances to customers	3,963,415	979,816	4,943,231
– Individually assessed	(609,774)	(60,161)	(669,935)
– Collectively assessed	(609,219)	(62,604)	(671,823)

Appendix I – Unaudited Consolidated Financial Statements

(All amounts expressed in thousands of RMB unless otherwise stated)

4 LOANS AND ADVANCES TO CUSTOMERS (Continued)

4.1 Overdue loans and advances to customers (Continued)

Fair value of collaterals against overdue loans and advances to customers:

	As at 31 December	
	2016	2015
Fair value of collaterals		
– Corporate loans	4,799,884	3,443,404
– Personal loans and advances	1,294,957	1,043,167
Total	6,094,841	4,486,571

4.2 Identified impaired loans and advances

	Anhui Province	Pan Yangtze River Delta	Total
As at 31 December 2016			
Identified impaired loans and advances for which allowance is	2,554,400	412,906	2,967,306
– Individually assessed	(487,099)	(148,350)	(635,449)
– Collectively assessed	(491,854)	(152,352)	(644,206)
As at 31 December 2015			
Identified impaired loans and advances for which allowance is	2,162,676	235,062	2,397,738
– Individually assessed	(631,198)	(60,161)	(691,359)
– Collectively assessed	(382,343)	(45,958)	(428,301)



徽商銀行股份有限公司

Huishang Bank Corporation Limited